

**DEVELOPMENT INCENTIVES:
THE ADVANTAGES AND DISADVANTAGES
OF MUNICIPAL FINANCIAL AND LAND
USE INCENTIVES**

**Research & Development Branch
Planning Services Division
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CONCLUSIONS AND RECOMMENDATIONS

DEVELOPMENT INCENTIVES: THE ADVANTAGES AND DISADVANTAGES OF MUNICIPAL FINANCIAL AND LAND USE INCENTIVES

CONTENT

TWO PARTS

This report evaluates the use and application of development incentives by municipalities.

Two types of development incentives have traditionally been utilized by municipalities; financial incentives and land use incentives. They have been used together or separately to attract and encourage certain types of development to locate within, or in certain parts of, a municipality.

The first report deals with land use incentives and has been prepared by Research and Development Branch. The second deals with financial incentives and has been prepared by the firm of Nichols Applied Management under the direction of Research and Development Branch.

PURPOSE

The use of special land use and financial incentives by municipalities to attract development is widespread. In some parts of North America they form part of the competitive environment. In other jurisdictions municipalities' rights to offer incentives are legislatively constrained.

The work contained in these reports is intended to provide a pool of information on the various incentives and their usefulness in practice. It may assist municipalities in deciding whether to offer incentives, to the extent permitted by law.

LIMITATIONS

The scope of the work has been limited to the land use implications of the various incentives. There are whole areas of municipal financing, taxation, assessment and municipal competition that are not within Planning Services Division's mandate and that remain to be explored.

CONCLUSIONS: LAND USE INCENTIVES

TYPES

1. Four major classes of land use incentives were examined; the on-site density bonus; transferred density bonuses; relaxation of standards; and authorized development of air space above existing developments.

BENEFITS

2. Only two Alberta municipalities are known to offer land use incentives. Individual municipalities stand to benefit from land use incentives as much as municipalities elsewhere and on balance, the benefits would appear to justify the use of these inducements.

ON-SITE DENSITY BONUSES

3. The strengths of the on-site density bonus lies in its potential for:
 - furthering the municipality's planning objectives by providing community amenities at no cost
 - introducing variety into urban design and land use
 - facilitating the provision of housing for low income groups
 - improving the developer's return on his investment
 - deflecting the charge that conventional zoning provisions are regulatory and restrictive.

Possible shortcomings include:

- the limited significance of the bonus to developers except in the urban core
- the possible need to establish a low maximum allowable density (to "underzone")
- limited effectiveness and restricted appeal in some circumstances
- the negative environmental effects
- unresponsiveness to changing economic conditions
- the absence of rules when bonuses are negotiated and are not specified in municipal bylaws.

TRANSFERRED DENSITY BONUSES

4. The strengths of the transferred density bonus are that it:
 - provides a means for preserving acknowledged resources without municipal expenditure
 - diverts construction to sites whose development detracts less from the greater public interest

- allows the seller of development rights to make a capital gain
- holds out the prospect of a greater economic return to the developer of a receiving site.

The weaknesses are:

- the possibility of a preserved building being dominated visually by the building on an adjacent receiving site, with consequent loss in amenity value
- the inflation of land values which may be initiated if market forces increase the price of development rights
- the control and management problems which may be encountered by the municipality.

RELAXATION OF STANDARDS

5. The strengths and weaknesses of this opportunity are poorly spelled out in existing studies.

Possible strengths are:

- the approval of residential lots which are smaller than the normal minimum size allows a developer to increase the number of units built in a given area
- the approved clustering of residential buildings within a given area increases the density of housing development, reduces the developer's infrastructure costs and generates public open space
- responses by developers could occur in any part of a municipality, not just the areas where site values are high.

Possible weaknesses are:

- the arbitrary nature of the provision
- the goals established in the General Municipal Plan could be undermined by piecemeal amendment of the land use bylaw.

AIR SPACE

6. The third-party development of air space is relatively uncommon but should, in theory, benefit all concerned;
 - the landowner, who makes a capital gain from the sale or receives income from the lease of the air space
 - the municipality, which widens its property tax base
 - the developer, who can take advantage of a new investment opportunity
 - the community, which acquires new employment opportunities and additional accommodation (but only to the extent that the increments exceed those which would result if a project were to be offered no incentives).

Weaknesses of the incentive are:

- the limited number of appropriate sites in any given municipality
- the possible reluctance of developers to take advantage of the air space when access at grade is unavailable or severely restricted
- possible difficulties in resolving disputes between the two property-owners.

PRACTICE
ELSEWHERE IN
CANADA

7. Few municipalities have chosen to offer on-site density bonuses in the largest urban places in the West and Ontario. Only five large cities are known to have approved the use of density transfers.

CONCLUSIONS: FINANCIAL INCENTIVES

TAX INCENTIVES

1. Municipal tax incentives appear to have little impact on commercial and industrial location decisions. A primary reason is that property and business taxes comprise a small portion of expenses. Furthermore, reductions are only temporary and the long term effect of reduced property taxes is minor.

GENERAL EFFECT

2. Most commercial and industrial concerns that have benefited from tax and other municipal financial incentives would likely have located or expanded in the absence of these incentives.

LOCATION

3. Property tax incentives may influence location decisions within a metropolitan area or region, to the extent that one municipality offers a tax advantage over another. However, the U.S. experience is that tax incentives have been adopted in clusters of localities thereby nullifying the competitive advantage to be gained from the incentives.

TAX INCREMENT
FINANCING

4. Tax increment financing may provide a mechanism for public improvements that would not otherwise be constructed. In the U.S., tax increment financing appears to cross subsidize one locality by another or by a higher level of government.

**REGIONAL
APPLICATION**

5. The greatest use of property tax incentives has taken place in the north-eastern and mid-western parts of the U.S. primarily to encourage the location, expansion or retention of capital intensive, manufacturing operations. These efforts have been aimed at influencing intra-regional relocation: Alberta communities, particularly the smaller ones, are clearly in a different economic situation.

ALBERTA

6. Most major capital projects in Alberta are located for geographic reasons, such as proximity to natural resources, feedstocks, transportation infrastructure and the major population centres of Edmonton and Calgary. In respect of major industrial plants, it is unlikely that their location would be influenced by local municipal tax policies. The same observation applies to the majority of commercial development in Edmonton and Calgary. A previous study on sites selection determinants in Alberta has confirmed that municipal taxation has been unimportant in the locational decision.

EQUITY

7. In many jurisdictions incentives are provided only to new enterprises. This results in an inequitable treatment of existing businesses. In addition the majority of growth comes from existing firms.

**TAX ABATEMENT
EFFECTIVENESS**

8. Case studies and literature review show that tax abatements are questionable in terms of their effectiveness.

SCHOOL COSTS

9. If school costs are forgiven and then subsidized by a higher level of government, misuse of tax abatement at the local level may inadvertently be encouraged.

**OTHER PROVINCES
PRACTICES**

10. Some provinces, notably Ontario explicitly forbid the provision of financial incentives or bonuses to private concerns. The practice is not widespread even where it is permitted. British Columbia and Saskatchewan have recently adopted legislation enabling and encouraging development incentives but other provinces are aiming to reduce their use.

SASKATCHEWAN

11. Saskatchewan legislation enabled tax abatement in 1985 and the waiving of business and property taxes for up to two years for small manufacturers has been adopted.

BRITISH COLUMBIA

12. British Columbia allows municipalities to waive 50% to 100% of property taxes to 1990. By agreement, the provincial government will pay the abatement portion of the school tax. This program goes hand in hand with a local economic development program.

OTHER MEASURES

13. Municipalities also employ other incentives such as industrial incubators and the provision of serviced industrial land. Surveys have shown that incubators are a positive influence but the question of whether these incentives are necessary remains unanswered. The supply of industrial land appears to have been successfully used, particularly in Ontario.

RECOMMENDATIONS

1. Land use incentives appear to offer greater advantages than disadvantages although most land use incentives currently only play a minor role in development of most Alberta municipalities.
2. Land use incentives offer individual municipalities an element of flexibility in attracting development and achieving established planning objectives and should be encouraged.
3. The benefits of including references to land use incentives in planning legislation might be worth evaluating. At present, a municipality may offer a density bonus through the power to provide for building height and area in its land use by-law. The terms of specific enabling legislation might require a municipality to be consistent in its use of incentives and to relate them to legitimate planning objectives.
4. The following elements of a land use incentive program appear to be desirable, depending on the particular local circumstances:
 - Density bonuses should be made available to developers "as of right", rather than being negotiated on a case-by-case basis. The "as of right" approach is superior because it minimizes the arbitrary element of municipal decision-making, eliminates the need for rezoning of sites and ensures that bonuses correspond to planning objectives. It also sets out the ground rules for developers and, like ideal zoning schemes, provides the public with reasonable certainty and predictability of land use.
 - Bonuses should be linked or indexed to economic indicators to maintain their value to developers.
 - A municipality that wishes to hedge against the risk of developers declining the offer of on-site density bonuses should introduce a two-tier bonus structure. Under this arrangement, developers must provide "mandatory improvements" in exchange for bonuses before seeking bonuses for "elective improvements".

- . A municipality must select an "as of right" (bonus-free) density which is not so low as to severely restrict use of the land yet not so high that developers do not need to seek a bonus.
 - . Both parties to a bonus agreement must be assured of long-term net benefits.
 - . A municipality should be prepared to offer different incentives in different parts of the built-up area. The density bonus is best suited to applications in the urban core. In the remaining parts of the community, the relaxation of lot standards may be a more attractive incentive.
5. Municipalities should be cautious in providing financial inducements for planning purposes to new development through tax abatement and other means e.g. provision of land or services below market values, lease or purchase agreements at above market rates, direct cash transactions. The reason for caution is that the benefits to municipalities are questionable, although less so when the objective is to preserve buildings of historical significance. In the latter context, financial assistance should not exceed the incremental costs of preservation.
 6. Municipalities that wish to foster local development should concentrate on marketing their community, including land availability, services, prices, and other "marketing" information; and developing a streamlined development process. Maintaining a "pro-business" image over a period of time may be more valuable than short-term financial inducements.
 7. Municipalities considering offering fiscal inducements, particularly tax abatements, should determine the amount of the incentive, if any, on an individual project basis. These incentives should only be provided if they are deemed necessary for a development to occur and should not exceed the net fiscal benefit of the potential development.
 8. In respect of tax increment financing, further study of this approach in the context of Alberta municipalities is warranted.

LIST OF INCENTIVES

TAXATION MEASURES

Property Taxes

Temporary or permanent abatement of land and improvement taxes

- may apply to total property (including previously existing) or to increased assessment only
- may apply during period of construction only
- may apply in specified localities or areas only (e.g. enterprise zones).

Temporary or permanent abatement of machinery and equipment taxes

- may apply to all machinery and equipment or to new machinery and equipment only
- may apply only to specific types of equipment e.g. computers, agricultural processing, pollution control
- may apply in specified localities or areas only.

General non-assessment or non-taxation of machinery and equipment.

Reassessment to lower values, typically to reflect current land use.

Business Taxes

Temporary or permanent abatement of business taxes.

General non-assessment of business taxes.

Other Taxes

(not applicable to Alberta)

Temporary or permanent abatement of locally levied sales, use, excise, income and inventory taxes.

Individually negotiated tax agreements incorporating local property and income taxes.

FINANCING MEASURES

Loans

- at below market interest rates or availability
- for new building construction
- for new machinery and equipment
- for public projects and infrastructure.

Loan guarantees

- enables lower interest rates
- for new building construction
- for new machinery and equipment.

Bond financing

- industrial revenue and general obligation (i.e. debenture) bonding financing
- applied to site acquisition and development as well as construction and equipment.

Grants

- direct grants for businesses
- possibly financed by higher level of government although local discretion.

Tax increment financing

- increases in tax base are used to finance public improvements to in turn promote economic development
- restricted within specified zone.

SPECIAL INDUCEMENTS

Local financed speculative buildings (e.g. incubators) and research parks

- lease rates below market levels
- joint ventures with private and other public organization

Locally owned/developed industrial parks and other sites

- land leased or sold below market rates
- land provided at no cost
- costs of servicing provided at reduced levels.

Lease guarantees

- municipality agrees to lease space or facility (e.g. parking structure)

Waiver of payments or provisions

- elimination of permit and other municipal fees
- waiver of lot levies and development charges (e.g. for off-site services)
- reduction or elimination of payments-in-lieu (e.g. for provision of parking).

**ON-SITE
DENSITY BONUSES**

1. an addition to a site's maximum permitted floor-area ratio (the ratio of the gross floor area in a building to the gross floor area at grade)
2. a percentage increase in a site's maximum permitted floor-area ratio
3. a "paper" increase in the size of a site for purposes of calculating a building's floor-area ratio (thus increasing the developable floor space)
4. the exclusion of floor areas designated for particular uses from the calculation of a building's floor area ratio (thus increasing the developable floor space)
5. an increase in the gross rentable area permitted in a development
6. an increase in the maximum permissible height of a building (expressed in feet or number of floors)
7. an addition to the density of development of a particular use
8. a percentage increase in the maximum permitted density of development for a particular use
9. an addition to the density of development of a particular use in a mixed use district if space for another use is provided
10. an addition to the density of development of a particular use if a portion of that density is reserved for a specific purpose (e.g., assisted housing)

**TRANSFERRED
DENSITY BONUSES**

1. the authorized transfer of unused density from another site (transfer of development rights)

**RELAXATION OF
STANDARDS**

1. municipal flexibility in establishing the required areas of yards
2. municipal approval of greater-than-normal lot coverage

**AIR SPACE
DEVELOPMENT**

3. a reduction in the required area of a lot (in return for land which would otherwise have been developed being preserved as public open space)
4. variance of the requirements for setback distances
5. a reduction in the required provision of landscaped areas (in return for provision of balconies and rooftop recreational areas in multiple family residential developments)
6. a reduction in the required provision of loading space
7. a reduction in the required provision of parking spaces
8. an increase in the number of dwelling units per acre
9. the massing of the site's density within the site
1. sale or lease of air rights above public buildings and railway yards to facilitate development of another use

**MUNICIPAL DEVELOPMENT INCENTIVES
FOR PRIVATE DEVELOPERS:**

(i) A Review and Evaluation of Land Use Incentives

Prepared by:

Research & Development Branch
Planning Services Division
Alberta Municipal Affairs

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SUMMARY

INTRODUCTION (Chapter 1)

In 1986, the Alberta government repealed the legislation which forbade municipalities from granting financial bonuses and tax exemptions to a broad range of businesses. However, in the absence of specific enabling legislation, municipalities' legal ability to offer such incentives lies in doubt. Pending clarification of the legal position, it appears opportune to examine the intrinsic merits of municipal incentives -- in all their variety, not just the financial types noted above -- as tools for encouraging private property development. (1.1) Depending on the circumstances, some incentives may be insufficiently beneficial to municipalities to justify use, even if the legal authority exists.

Two categories of incentive have been offered to developers by various North American municipalities: i) land use and ii) financial. The latter encompass a variety of direct and indirect subsidies; land use incentives, by contrast, allow a site to be developed at a higher density than normally permitted in a land use bylaw. A developer stands to make a greater return on his investment when extra density is approved. (1.1)

This report provides provincial decision-makers with an evaluation of the land use incentives. Another, separate report examines the financial incentives. (1.1)

There are four major classes of land use incentive:

- The On-Site Density Bonus: the additional floor space that a developer can create when a municipality explicitly increases the permissible density of development on a site. (2.2 and Table 2.1) In return for the bonus, the developer is required to provide the municipality with a physical amenity or to contribute to the achievement of planning objectives in some other way. (2.6 and Table 2.2)
- The Transferred Density Bonus: the additional floor space that a developer can create when a municipality sanctions an increase in density equal to (or less than) the undeveloped density on another site. (2.3) The "donating" site is usually the location of an historically significant building or farmland deemed to be worth preserving.
- The Relaxation of Lot Standards: the relaxation or waiving of lot dimensions (e.g., size, coverage) governed by the land use bylaw, to facilitate developments which promote specific land use objectives or to encourage development generally. (2.4)

- The Authorized Development of Air Space Above Existing Developments: the approved development of air space over a low-rise building or extensive use (e.g. a railway yard) which occupies valuable urban land but cannot be removed. Unlike conventional development, where land and buildings are owned by a single party, this incentive involves the owner of the land and existing improvements selling the development rights for the overlying air space to another party, for development in situ. (2.5)

THE APPROPRIATENESS OF LAND USE INCENTIVES IN ALBERTA (Chapter 6)

Only two Alberta municipalities (Edmonton and Calgary) are known to offer land use incentives. Experience in these centres and elsewhere in North America indicates that each of the incentives possesses both strengths and weaknesses. On balance, the strengths would appear to justify the use of these inducements; municipalities are provided with an opportunity for exercising flexibility in the way they control development on behalf of their citizens.

Individual Alberta municipalities stand to benefit from land use incentives as much as similar municipalities elsewhere. At the same time, some municipalities may be in a better position than others to profit from the use of incentives.

The on-site density bonus is best suited to growth conditions in the inner areas of larger communities. In small towns, developers may not be prepared to provide amenities to obtain extra density at a central location; land costs are lower and distances are shorter. Furthermore, small municipalities may be reluctant to demand amenities for fear of driving away developers in a period of slow growth. (6.2)

The transferred density bonus also lends itself primarily to applications in the central areas of large cities. However, rural municipalities which wished to preserve agriculture land could employ this incentive to help contain urban development within designated areas. (6.3)

The relaxation of lot standards should, in theory, be attractive to developers anywhere in any community. In practice, developers would probably be influenced more by growth potential, market size, and relative location -- or by the financial inducements offered by any municipalities -- when evaluating prospects in alternative centres. (6.4)

The authorized development of air space above existing developments is irrelevant to the situation in most Alberta communities. Prime development land is not in such short supply that existing structures and facilities have to be built over. Buildings tend to be demolished and railway yards relocated. (6.5)

It should also be borne in mind that developers are unlikely to seek an increase in density anywhere when the general economic outlook is uncertain. Consequently, municipalities should not rely solely on density bonuses to provide desired public amenities. (6.6)

RECOMMENDATIONS

Land use incentives offer individual municipalities an element of flexibility in attracting development and achieving established planning objectives. However, their potency may be diminished if they are also offered by many or all other municipalities. In such a situation, communities' inherent differences in attractiveness to developers may simply be exacerbated; the incentives may simply increase the competitive advantages of larger centres. All the ramifications of the widespread use of these inducements are unknown and remain to be investigated.

The benefits of including references to land use incentives in planning legislation might be worth evaluating. At present, a municipality may offer a density bonus through the power to provide for building height and area in its land use bylaw. The terms of specific enabling legislation might require a municipality to be more consistent in its use of incentives and to relate an incentive explicitly to legitimate planning objectives. In any event, a review would be valuable in clarifying whether land use incentives should be supported in principle. Existing incentive practice and their inter-municipal ramifications would have to be considered carefully. (6.7)

Additional information should be gathered on developers' attitudes towards land use incentives. Amenities that could be sought from developers in small communities should also be investigated. (6.8) Unfortunately, developers' behaviour in the absence of municipal stimuli is likely to remain unknown, precluding informed debate on the real need for the incentives. (3.5)

ON-SITE DENSITY BONUSES (Chapters 2 and 3)

The strengths of the on-site density bonus lie in its potential for:

- . furthering the municipality's planning objectives by providing community amenities at no cost
- . introducing variety into urban design and land use
- . facilitating the provision of housing for low income groups
- . improving the developer's return on his investment
- . deflecting the charge that conventional zoning provisions are regulatory and restrictive.

(3.2.1)

Possible shortcomings include:

- . the limited significance of the bonus to developers in those areas where land is less valuable than in the urban core
- . the possible need to establish a low maximum allowable density (to "underzone") to ensure that developers respond to the incentive
- . limited effectiveness when the maximum allowable density is sufficiently high to avoid charges of underzoning but also exceeds the density sought by most developers
- . restricted appeal when the prospects for urban growth are slight and the risk of investment high
- . the negative effects of a density developed site on micro-climate, sunlight access, architectural character and transportation patterns
- . the devaluation of acquired amenities by inappropriate design or juxtaposition to other buildings
- . the average citizens' greater unfamiliarity with the concept of bonuses than with conventional zoning controls
- . unresponsiveness to changing economic conditions
- . the absence of rules when bonuses are negotiated and are not specified in municipal bylaws.

(3.2.2)

TRANSFERRED DENSITY BONUSES (Chapters 2 and 3)

The strengths of the transferred density bonus are that it:

- provides a means for preserving acknowledged resources without municipal expenditure
- diverts construction to sites whose development detracts less from the greater public interest
- allows the seller of development rights to make a capital gain
- holds out the prospect of a greater economic return to the developer of a receiving site.

(3.3.1)

The weaknesses are:

- the possibility of a preserved building being dominated visually by the building on an adjacent receiving site, with consequent loss in amenity value
- the inflation of land values which may be initiated if market forces increase the price of development rights
- the control and management problems which may be encountered by the municipality.

(3.3.2)

RELAXATION OF LOT STANDARDS (Chapter 2 and 3)

An approved increase in the dimensions of a building's main floor raises the maximum floor area permitted within the entire building. The reason is that density standards are expressed as a ratio of a building's total floor area to the floor area at grade. (2.4)

The approval of residential lots which are smaller than the normal minimum size allows a developer to increase the number of units built in a given area. (2.4)

The approved clustering of residential buildings within a given area not only increases the density of housing development but also reduces the developer's infrastructure costs and generates public open space. (2.4)

Unlike the other land use incentives, the relaxation of bylaw standards could lead to responses by developers in any part of a municipality, not just the areas where site values are high.

The weaknesses of the incentive are its arbitrary nature and its dilution of the certainty which ideally characterizes a zoning scheme. The goals established in the General Municipal Plan could be undermined by piecemeal amendment of the land use bylaw and frequent approval of developments which do not wholly comply with the land use bylaw. (3.4)

AUTHORIZED DEVELOPMENT OF AIR SPACE ABOVE EXISTING DEVELOPMENTS (Chapters 2 and 3)

The third-party development of air space is relatively uncommon but should, in theory, benefit all concerned;

- . the landowner, who makes a capital gain from the sale or receives income from the lease of the air space
- . the municipality, which widens its property tax base
- . the developer, who can take advantage of a new investment opportunity.
- . the community, which acquires new employment opportunities and additional accommodation (but only to the extent that the increments exceed those which would result if a project were to be offered no incentives). (2.5)

Weaknesses of the incentive are:

- . the limited number of appropriate sites in any given municipality
- . the possible reluctance of developers to take advantage of the air space when access at grade is unavailable or severely restricted
- . possible difficulties in resolving disputes between the two property-owners.

MUNICIPAL POLICY OBJECTIVES

A review of the literature suggests that the evident policy objectives of municipalities in offering land use incentives can be classified into seven general categories:

- . building preservation
- . built form and site planning
- . cultural
- . land use planning

- . open space
- . social and community
- . transportation and pedestrian movement (2.6 and Table 2.2)

An additional category consists of objectives unrelated to land use planning, for example, the broadening of the local tax base and the stimulation of the local economy. (2.6)

Density bonuses have been adopted by "big cities" as a means of revitalizing core areas. (2.6)

The variation in objectives among user municipalities is attributable to differences in the character of the downtown area and in perceptions of the need for action. (2.6)

LEGAL PERSPECTIVES (Chapter 4)

The four Alberta municipalities which have offered land use incentives have drawn their authority from the sections of the Planning Act (s. 61-74) which deal with general municipal plans and land use bylaws (4.2). Likewise, municipalities in most of the other provinces would rely on their general powers of zoning and development approval if incentives were contemplated. Ontario and Saskatchewan, by contrast, specifically empower their municipalities to offer on-site bonuses in exchange for amenities. (4.3)

In practice, however, few municipalities have chosen to offer on-site density bonuses; the only proponents are a few of the largest urban places in the west and Ontario. Furthermore, only five large cities are known to have approved the concept of density transfers. Developers, for their part, are comparatively uninterested in land use incentives when economic prospects are uncertain.

It is the opinion of an expert in Alberta planning law that the repeal of the prohibition on bonuses and tax exemptions does not alter the legal status quo. Consequently, if the province chose to encourage the use of density bonuses, an enabling provision may have to be included in the Planning Act to remove any possible doubts over their legality. (4.5)

There has been little litigation of the concept of density bonuses in the United States, where the concept was formulated. The record in Canada is unknown but the absence of a legal guarantee of property rights -- even under the Charter of Rights -- probably limits the grounds for challenge as long as a "legitimate planning purpose" is evident. (4.4)

DESIRABLE ELEMENTS OF AN INCENTIVE PROGRAMME (Chapter 5)

In a density bonus programme, density bonuses should be made available to developers "as of right", rather than being negotiated on a case-by-case basis. The "as of right" approach is superior because it minimizes the arbitrary element of municipal decision-making, eliminates the need for rezoning of sites and ensures that bonuses correspond to planning objectives. It also sets out the ground rules for developers and, like ideal zoning schemes, provides the public with reasonable certainty and predictability of land use. (5.2)

Bonuses should be linked or indexed to economic indicators to maintain their value to developers. (5.3)

A municipality which wishes to hedge against the risk of developers declining the offer of on-site density bonuses should introduce a two-tier bonus structure. Under this arrangement, developers must provide "mandatory improvements" in exchange for bonuses before seeking bonuses for "elective improvements". (5.4)

A municipality must select an "as of right" (bonus-free) density which is not so low as to severely restrict use of the land yet not so high that developers do not need to seek a bonus. (5.5)

Both parties to a bonus agreement must be assured of long-term net benefits. (5.6)

A municipality should be prepared to offer different incentives in different parts of the built-up area. The density bonus is best suited to applications in the urban core. In the remaining parts of the community, the relaxation of lot standards may be a more attractive incentive. (5.7).

NOTE

THE LEGAL STATUS OF LAND USE INCENTIVES

The purpose of the report is to consider the relative merits and appropriateness of land use incentives as planning tools. The present legal position concerning such incentives in Alberta is described in Chapter 4, "Legal Perspectives".

CHAPTER I

INTRODUCTION

1.1 Purpose and organization

On September 18, 1986, Alberta municipalities were freed from an explicit legal impediment to the provision of financial incentives. The repeal of section 443(1) of the Municipal Government Act removed the prohibition on the granting of bonuses or tax exemptions to businesses (Municipal Government Amendment Act, 1986, s. 26). Nevertheless, in the absence of specific enabling legislation, municipalities' legal ability to offer such incentives lies in doubt.

Pending clarification of the legal position, it seems oportune to examine the intrinsic merits of municipal incentives -- in all their variety, not just the financial types noted above -- as tools for encouraging private property development. Depending on the circumstances, some incentives may be insufficiently beneficial to municipalities to justify use, even if the legal authority exists.

Anticipating a need for technical information and guidance, Research and Development Branch has undertaken a study of development incentives at the municipal level. There are two components: (a) an analysis of land use incentives and (b) an analysis of financial incentives.

Financial incentives are direct and indirect subsidy measures such as loan guarantees, municipal tax abatements and the reduction of utility charges. Land use incentives, on the other hand, are measures which fall within the purview of planning legislation and do not require a municipality to forego revenue or engage in expenditure. Their purpose is to encourage the development of land by directly or indirectly allowing individual sites to be developed at greater than normal densities: an appealing prospect for developers, who stand to make greater returns on their investments.

The present report deals solely with the land use incentives, which, deriving legal authority in Alberta from The Planning Act, are unaffected by the Municipal Government Amendment Act. Utilizing data gathered from the literature and a survey of Canadian municipalities, the incentives are classified as to their character and objectives. Following an evaluation of strengths and weaknesses, some legal perspectives are offered. Desirable elements of an incentive programme are then suggested and conclusions drawn as to the appropriateness of land use incentives in Alberta communities.

1.2 Terminology

The term "bonus" is given a specific meaning in the report. It is the synonym for the most direct form of land use incentive, a "density bonus". This is a municipality's conditional or unconditional approval of the development of a site at a density of use (as measured by the ratio of total floor area to the floor area at grade) greater than the maximum authorized in the land use bylaw (zoning regulations).

The term "concession", which refers to "anything yielded or conceded" or "land, privileges, etc. given by a government to a business company" (Avis et al., 1983, 242), is not used as it has acquired a somewhat loaded meaning (see, for example, Hutton, 1987).

CHAPTER 2

TYPES OF LAND USE INCENTIVE

2.1 Introduction

Four categories of land use incentive can be identified: on-site density bonuses, transferred density bonuses, the relaxation of lot standards and the authorized development of air space above existing developments (Table 2.1). This chapter describes each in turn and then briefly discusses municipalities' objectives in offering inducements of this kind.

2.2 On-site density bonuses

An on-site density bonus, as the name suggests, is the approved construction of a building at a density exceeding the maximum permitted for the site in the land use (zoning) bylaw. In return for the benefit, the developer is usually required to provide stipulated amenities on or off the site (see 2.6). As is evident from Table 2.1, which is a condensation of a longer listing (Appendix A), there are many ways in which the increment in permitted density has been expressed. Moreover, some municipalities in North America have instituted a single-tier bonus structure while others have opted for a two-tier structure. Under the latter, developers must provide a basic set of amenities ("mandatory improvements") for additional density before any bonuses for "elective improvements" can be sought (U.S. Dept. of Housing and Urban Development, 1977A, 27); in a single-tier arrangement, all improvements are elective.

2.3 Transferred density bonuses

A transferred density bonus is distinguished from an on-site density bonus in the calculation of incremental density and in purpose. The additional density is equal to or less than the unused density (development rights) on another site which has not been developed to the fullest extent permitted. Municipalities have allowed this amount to be transferred and added to the density on the receiving site when seeking to preserve an historically or culturally significant building on the donating site.

Table 2.1

LAND USE INCENTIVES OFFERED TO DEVELOPERS BY MUNICIPALITIES

a) On-site density bonuses

- i. an addition to a site's maximum permitted floor-area ratio (the ratio of the gross floor area in a building to the gross floor area at grade)
- ii. a percentage increase in a site's maximum permitted floor-area ratio
- iii. a "paper" increase in the size of a site for purposes of calculating a building's floor-area ratio (thus increasing the developable floor space)
- iv. the exclusion of floor areas designated for particular uses from the calculation of a building's floor area ratio (thus increasing the developable floor space)
- v. an increase in the gross rentable area permitted in a development
- vi. an increase in the maximum permissible height of a building (expressed in feet or number of floors)
- vii. an addition to the density of development of a particular use
- viii. a percentage increase in the maximum permitted density of development for a particular use
- ix. an addition to the density of development of a particular use in a mixed use district if space for another use is provided
- x. an addition to the density of development of a particular use if a portion of that density is reserved for a specific purpose (e.g., assisted housing)

b) Transferred density bonuses

- i. the authorized transfer of unused density from another site (transfer of development rights)

c) Relaxation of lot standards in land use (zoning) bylaws to increase the permissible density of development

- i. municipal flexibility in establishing the required areas of yards
- ii. municipal approval of greater-than-normal lot coverage
- iii. a reduction in the required area of a lot (in return for land which would otherwise have been developed being preserved as public open space)

Table 2.1 (continued)

- iv. variance of the requirements for setback distances
- v. a reduction in the required provision of landscaped areas (in return for provision of balconies and rooftop recreational areas in multiple family residential developments)
- vi. a reduction in the required provision of loading space
- vii. a reduction in the required provision of parking spaces
- viii. an increase in the number of dwelling units per acre
- ix. the massing of the site's density within the site

d) Authorized development of air space above existing developments

- i. sale or lease of air rights above public buildings and railway yards to facilitate development of another use

Source: Appendix A.

The transfer is relatively straightforward when the donating and receiving sites are owned by the same individual. In other circumstances, the unused rights may be sold by an owner, and, if necessary, banked by the municipality pending an expression of interest by a developer. The distance of density transfer and the increase in density at the receiving site may be limited. In all cases, however, the "bonus" element is shared between the owners of the donating and receiving sites: both benefit financially from the transfer of the unused density.

2.4 Relaxation of lot standards

As stated earlier, density is the ratio of the developed space within a building to the floor area of the building at grade. Consequently, any actions by a municipality which allow a developer to increase his main floor area will yield him an increase in the absolute amount of floor space permitted by the existing density regulations.

The size of a lot and its coverage by "improvements" are governed by a municipality's zoning regulation. Accordingly, a municipality can grant a de facto increase in density by relaxing or varying the minimum standards relating to lot coverage, yard sizes, setback distances, loading spaces and parking areas. Similarly, if the minimum size of lots were to be reduced, as might occur in low- or medium-rise residential areas, a developer could develop more units on a given area of land (e.g. a subdivision).

Land use (zoning) regulations can also be relaxed -- or, if necessary, a redistricting performed -- to allow the spatial concentration of residential buildings within a development site. The maximum permitted site density must be respected but the distribution of density over the site can be irregular. The incentive quality of such an arrangement (cluster or planned unit development) lies in the reduction of infrastructure costs (Schiffman, 1983, 26), the approved construction of more dwelling units than normally allowed and the approved inclusion of retail units in a residential district (Babcock, 1979, 435). The municipality and the community benefit from the provision of public open space (Schiffman, 1983, 26).

2.5 Authorized development of air space above existing developments

If a site is underdeveloped but the existing use cannot be changed, a municipality can approve the on-site development of the unused density by a third party (i.e., someone other than the municipality or the owner of the site). The developer of the overlying air space either can erect a building on a deck over the existing structure or integrate the latter within the new building. The higher density of development benefits all concerned: the landowner gains from the sale or lease of the air space to the developers, the developers are offered an investment opportunity that would not otherwise exist and the municipality receives a greater amount of tax revenue from the site.

The community as a whole gains from any new employment opportunities or additions to the supply of accommodation -- but only to the extent of the difference between the increments and those which would have resulted if no municipal incentives had been forthcoming. In the latter event, the development might have proceeded elsewhere in the municipality or simply not taken place.

Low-rise buildings and railway yards exemplify the types of facility which have been built over.

2.6 The municipal objectives of land use incentives

There are several possible reasons why a municipality should seek to encourage development generally: to broaden the local tax base, to improve the state of the economy, to ensure an adequate supply of housing and to facilitate the preservation of designated buildings or areas. The provision of land use incentives is likely motivated by the same objectives. However, the precise intent is not always explicit.

The two density bonuses are the only land use incentives whose purpose is reasonably evident. In the case of on-site density bonuses, municipal insistence on a quid pro quo from a developer indicates that the municipality wishes to acquire a community amenity or facility at no cost to itself. The amenity/facility may be a newly created structure, space or land use. By contrast, the municipal objective of the transfer of development rights is usually to prevent the removal of an existing amenity. Whatever the circumstances, it is desirable that the granting of on-site and transferred density bonuses -- and, by extension, the selection of an amenity sought as a quid pro quo -- should be based on explicit planning policies (Ontario Planning Act Review Committee, s.11.32) other than just be conducted arbitrarily.

The range of amenities desired by an individual municipality may be quite limited but a list of the amenities sought by North American municipalities collectively (Appendix B) is remarkable for its length. Similarly, transferred density bonuses, whose relevance might be thought to be limited to one or two special situations, are used to achieve a surprising variety of objectives (Appendix C). For summary purposes, however, the objectives of land use incentives can be classified into seven groups: building preservation, built form and site planning, cultural, land use planning, open space, social and community, and transportation and pedestrian movement. Table 2.2 identifies the principal objectives encompassed by each of these groups.

The names of the communities which offer density bonuses (Appendices B and C) make it evident that these incentives are essentially "big city" phenomena. Since the additional density and the amenities provided are typically located in or adjacent to a city centre, it is also clear that the role of the density bonus has been to help maintain the quality of life, economic viability and residential component of the central business district and its periphery: the sector of the city most frequently in need of revitalization.

Individual municipalities' objectives may be explained by the character of the downtown area and the perceived need for action. Socially-minded municipalities, for example, might encourage the reservation of new residential space for minority groups in the central city; in winter cities, by contrast, top priority might go to the physical linkage of buildings by enclosed walkways. A definitive explanation of the place-to-place differences in objectives would require an intimate knowledge of local conditions.

The reasons why municipalities have relaxed lot size and coverage regulations or authorized the use of air space are not stated in any detail in the literature. Indeed, it may be the rule that encouragement of development is regarded as an end in itself -- and sufficient justification for a municipality to offer incentive measures. Furthermore, a quid pro quo may not be demanded if the rationale for preferential treatment is simply the broadening of the tax base. More data must be collected before authoritative statements can be made on the purpose of these incentives.

Table 2.2

GENERAL AND SPECIFIC OBJECTIVES OF LAND USE INCENTIVES
OFFERED TO DEVELOPERS BY MUNICIPALITIES

a) Building Preservation Objectives

- i. Preservation of buildings for residential purposes
- ii. Preservation of heritage buildings and landmarks
- iii. Retention of places of worship

b) Built Form and Site Planning Objectives

- i. Achievement of basic downtown development standards
- ii. Development of air space over streets in an area of several blocks
- iii. Incorporation of desired design features in new developments
- iv. Private provision of parking space

c) Cultural Objectives

- i. Performance of archaeological survey
- ii. Private provision of cultural exhibits and recreational facilities
- iii. Private provision of space for cultural and recreational facilities

d) Land Use Planning Objectives

- i. Comprehensive planning and development
- ii. Consolidation of lots
- iii. Development of air space over existing buildings, lands and facilities
- iv. Development of mixed use residential-commercial projects
- v. Development of mobile home parks
- vi. Encouragement of high residential densities at the periphery of the C.B.D.
- vii. Encouragement to the development of hotel and residential uses
- viii. Supply of developed amenity land

Table 2.2 (continued)

- ix. Supply of land for public purposes

e) Open Space Objectives

- i. Landscaping
- ii. Preservation of rural areas in agricultural, open space and natural uses
- iii. Private provision of open space, landscaped areas and public amenities
- iv. Protection of environmentally sensitive land
- v. Supply of usable open space and landscaped areas

f) Social and Community Objectives

- i. Encouragement of income mixing/integration
- ii. Private provision of space for social services and community facilities
- iii. Provision of housing
- iv. Provision of housing for selected groups

g) Transportation and Pedestrian Movement Objectives

- i. Beach access
- ii. Provision and improvement of access to downtown buildings by pedestrians and all forms of transportation
- iii. Provision of access to parking facilities or public transit services

Source: Appendix B.

CHAPTER 3

EVALUATION OF INCENTIVES

3.1 Introduction

A municipality should not adopt a programme of incentives without first evaluating the possible results of the individual incentives. Accordingly, the discussion turns now to the strengths and weaknesses of land use incentives.

Out of necessity, the review concentrates on on-site and transferred density bonuses. The literature contains insufficient information on the deliberate relaxation of lot standards and the authorized development of air space for a rigorous assessment of their attributes and utility. However, brief observations are offered on the relaxation of lot standards.

The evaluation consists of commentaries on the strengths and weaknesses noted by practitioners and commentators in published sources (Appendix D through H). Three perspectives are adopted: those of the municipality, the community and the developer.

3.2 On-site Density Bonuses

3.2.1 Strengths

From the standpoints of the municipality and the community, an on-site bonus possesses several important strengths (Appendix D). It can assist in the achievement of community planning objectives, at no cost to the municipality. It obviates the need for the municipality to regulate in order to obtain particular public benefits. It can introduce greater variety into urban design and land use than traditional zoning. It may be used to promote a supply of housing for low income groups, again at minimal or no expense to the municipality. In addition, "as of right" bonus programmes free municipalities from the need to engage in formal rezoning proceedings.

From the developer's perspective, the availability of bonuses holds out the prospect of a more attractive financial return from a project. Indeed, additional vertical development becomes crucial to the feasibility of a venture when the site area is small. The very fact that bonuses are intended to encourage development should also predispose developers favourably towards incentives since conventional zoning provisions tend to be perceived as regulatory and restrictive.

3.2.2 Weaknesses

There is a greater variety of weaknesses than of strengths (Appendix E). However, the shortcomings are frequently related more to the operation of the bonus schemes than to matters of principle and should be rectifiable.

Several operational weaknesses are evident to the municipality. First, an on-site bonus cannot realistically be expected to influence the development of sites outside the area of highest land values (principally the downtown and its immediate periphery). Second, the effectiveness of the incentive may be restricted if the permitted "as of right" density is set high to avoid charges of "underzoning" (i.e., setting the maximum "as of right" density unusually low). Third, density bonus schemes will not generate a greater supply of rental housing -- or, indeed, any form of residential or commercial accommodation -- unless developers perceive the market conditions to be opportune for investment. When the prospects for growth are limited, little or no property development will be occurring in the downtown and the potency of the incentives will be diminished: the current situation in Prairie cities (City of Regina, 1986, City of Winnipeg, 1986). It follows that bonus schemes cannot always be relied on to generate amenities for a municipality.

The limitations apparent to the community are also operational in nature but are capable of being remedied. For example, the scheduling of bonuses for amenities may disregard the suitability of additional density on particular sites: negative externalities such as the consequences for micro-climate, sunlight access, transportation patterns and architectural character may be discounted or overlooked. Similarly, amenity value may be diminished where, because of inappropriate size, shape or location, the open space provided by developers has been found to be unusable, as in central Kitchener (City of Kitchener, 1986, pers. comm.).

A schedule may also fail to reflect changes in public values, in which case the community may be endowed with outmoded amenities or buildings whose characteristics (e.g., excessive height) have limited popular appeal. Public displeasure may again be incurred when, for welfare reasons, accommodation is reserved for low-income or elderly households. The housing of disparate groups in close proximity on a single site may generate social friction and decrease the attractiveness of the development to potential, unsubsidized renters.

Another possible weakness is that the inclusion of bonus policies in municipal bylaws may pass unnoticed by the public at large, who will consequently be unaware of the ramifications of the policies. Apparently the problem can become severe, as in Ontario, where one council has been accused of "deception" in adopting a bonus policy. The charge may or may not be accurate but it emphasizes the fact that the concept of density bonuses may be less familiar to the average citizen than traditional zoning controls.

The shortcomings perceived by developers are both operational and philosophical. First, the underzoning of land, which may be necessary to induce developers to seek bonuses, may be regarded as discriminatory or inequitable. Second, developers may feel that the exchange of additional density for amenities is weighted in favour of the municipality, which is perceived as free to impose "excessive" demands for amenities. Third, developers may harbour strong objections to bonuses being negotiated between the municipality and the developer instead of being available "as of right" (i.e., on the terms specified in municipal bylaws). Under an ad hoc arrangement, the rules are unclear and municipal decision-making is discretionary. On the other hand, a schedule of amenities and bonuses in a land use bylaw may not reflect changes in economic conditions and demand too much of developers in a period of recession.

Rather uncharacteristically, the municipality and the developer would agree on one potential source of weakness -- the involvement of more than one level of government -- if events in Toronto are any guide. The City of Toronto offered additional density to developers in exchange for providing rent-assisted "social housing" units in high-rent, luxury developments (City of Ottawa, 1985, 4-5). However, a provincial body was responsible for leasing the assisted accommodation, for subsequent rental to eligible families at subsidized rates.

The provincial agency succeeded in upsetting both the other parties. It would not accept any of the earmarked units within a project prior to completion (Tomlinson, 1980, 4), thereby exacerbating the uncertainty facing developers. Moreover, in an actual instance, it refused to accept the units built by a developer who had already been granted a density bonus, thus antagonizing the City. The City's response to these bureaucratic complications was to change a residential developer's obligation under a density bonus agreement: he now has to provide land, property or cash to a co-operative or non-profit group (City of Ottawa, 1985, 4-5).

3.3 Transferred density bonuses

3.3.1 Strengths

The transfer of development rights (density) can yield important benefits (Appendix F) to each of the three interests.

The municipality and the community gain in two ways. First, unique resources and buildings can be preserved (Table 3.1) even though the municipality lacks the wherewithal to purchase the properties. Second, construction is diverted to sites whose development is not contrary to the greater public interest.

The appeal of the bonus to developers lies in the potential for an improved economic return from the development of a "second choice" site when the maximum permitted density can be exceeded. Moreover, the sale of unused development rights holds out the prospect of a capital gain to a property owner who cannot or does not want to undertake further development. The owner of a preserved heritage building may also stand to benefit from a decrease in property tax assessment since the site's development potential has been lowered.

3.3.2 Weaknesses

As with on-site bonuses, some of the recognized shortcomings of transferred bonuses (Appendix G) are control problems which should be capable of remedy. Once again, however, the developers' objections are less easy to resolve.

Possible municipal and community concerns include the external effects of additional density in the downtown -- as exemplified in 3.2.2 -- and the chance that a preserved building adjacent to an approved receiving site may be physically dwarfed by the new building. Insufficient consideration of setting during the approval process may pave the way for visual incongruity, reducing the historic building's amenity value. The use of TDR may also create uncertainty among the public: the potential effect on the spatial pattern of land prices is unclear and the certainty inherent in conventional zoning regulations is partly undermined. The municipality -- as distinct from the community -- may identify a further weakness: the creation of considerable control and management problems for local government, particularly if development rights are banked for future sale.

Table 3.1

BUILDINGS PRESERVED OR ESTABLISHED THROUGH TRANSFERS
OF DEVELOPMENT RIGHTS: SELECTED EXAMPLES

New York:	Rights transferred from Museum of Modern Art to an apartment block (Shortell, 1980)
	The rights of the U.S. Customs House, Bowling Green advertised for sale (The Globe and Mail, 1987, B2)
	Rights transferred from St. Paul's Chapel to an adjacent office complex (The Listener, 1987, 13)
Toronto:	Rights transferred from the (Anglican) Church of the Redeemer to a condominium development (Renaissance Plaza) (Shortell, 1980)
	Rights transferred from the National Club of Toronto to a commercial development (Bank of Nova Scotia and Campeau Corporation) (The Globe and Mail, 1983B)
	Rights transferred from St. Andrew's Presbyterian Church to a commercial development (Sun Life head office) (Land, 1982, 1)
Vancouver:	Rights transferred from Christ Church Cathedral to an office tower (Shortell, 1980)
Communities	were transfers have taken place but for which no details are presently available:
	- Chesterfield, New Jersey - Hillsborough, New Jersey - St. George, Vermont - Southampton, New York - South Brunswick, New Jersey - Southeast, New Jersey
	(Smith, 1979, 81)

The developer's most serious criticism is that the areas containing potential receiving sites may have to be downzoned by the municipality to enhance the significance of the incentive. Another source of unease is the uncertain effect of density transfers on land prices -- an uncertainty heightened by the banking of transferable density pending the selection and approval of a receiving site. Speculation in land may act to the detriment of all developers.

3.4 Relaxation of lot standards

The strengths and weaknesses of relaxing various zoning standards (other than density and height) are poorly covered in the literature. A search revealed a handful of statements on the strengths (Appendix H) but none relating to the weaknesses. Consequently, much of the following commentary is personal observation.

The strength of the incentive from both the municipal and developers' viewpoints would appear to be relevance in a particular locale. According to the literature, the relaxation of standards is better than a density bonus in stimulating development in the outer areas of a community and the urban fringe. In such areas, there is no imperative to emphasize height at the expense of other considerations; developers may be principally concerned with minimizing their servicing and building costs or with developing a diversity of uses in a small area. The modification of zoning standards would not only help developers achieve such objectives but would partially remove the stigma of "restrictiveness" from the land use control system.

Municipal willingness to relax standards or approve innovative zoning proposals could also clear the way for unconventional but desirable forms of development. For example, the approved clustering of buildings within a site, as in a planned unit development, could result in the development of physically difficult sites. Furthermore, the approved construction of a wide range of housing types in a planned unit development could help a municipality achieve its housing goals as well as assist the development in marketing the project.

Two important weaknesses may be suggested. First, the unavoidably arbitrary nature of the municipal decision-making. Second, the removal of the strong element of certainty that ideally characterizes a zoning scheme. Taken to an extreme, the selective relaxation of standards could undermine the community's confidence in land use control since all guarantees as to the future pattern of land use would be removed. The municipality may lose sight of the goals established in the general plan if the zoning bylaw -- the implementing tool -- is amended piecemeal. Developers treated differently to their colleagues may feel that they have been treated inequitably.

3.5 Discussion

The strengths and weaknesses associated with particular incentives vary with the point of view of the observer -- the municipality, the community and the developer. Ultimately, however, the decision whether to offer development incentives must be taken by the municipality alone. The municipality, therefore, has to be convinced that incentives can help achieve planning and/or other objectives and that the prospect of developing a site at a greater than normal density will strike a responsive chord in developers. Having made these assumptions, it must be certain that an incentive offered to a developer will result in a net benefit to the municipality -- presumably the belief of those municipalities which already offer incentives (Appendix A).

The extent to which the interests of the community and the developer should also be considered would be a matter for local judgement. If, for example, the demand for developable land were high, the municipality might not have to attach as much weight to the concerns of developers as when the development market were flat. The variation in local circumstances prevents the drafting of specific guidelines on how municipalities should deal with the concerns of the community and the developer.

The literature is noticeably deficient in details of the implementation and operation of incentive policies. This omission is regrettable as the information would be of interest to municipalities and might reveal further strengths and weaknesses which should be taken into account. As long as the administration of incentive programmes remains a grey area, municipalities cannot be sure of the monitoring and supervision required after land use incentive arrangements have been negotiated and approved.

A richer data base would allow the scope of the evaluation to be broadened. The accounting of strengths and weaknesses is an essential part of the exercise but could be usefully supplemented by insights gleaned from quantitative empirical analysis. For example, some of the ingredients for a successful bonus programme -- a topic discussed at some length in Chapter 5 -- could be inferred from a review of individual municipalities' experiences which enumerated (a) the proportion of developments in a particular zoning district which have taken advantage of available bonuses, (b) the proportion of developers seeking to maximize their bonuses -- an indication of the perceived value of bonuses to developers -- and (c) the types of amenity that developers are willing to provide when choices have been available. The raw data for this endeavour would have to be collected from planners and developers in urban places where the demand for residential and commercial accommodation has been strong and developers have actively sought to take advantage of available incentives: conditions absent from many Canadian cities in recent years.

An issue which is less easily resolved is the basic need for incentives of any description. Theoretic debates have been waged around concepts of equity, ethics and economics but a more practical criterion may be whether a developer would behave any differently in the absence of municipal stimuli. Thus, if a developer intended to proceed with a project irrespective of incentives, the incentives would not perform their intended function; they would merely provide the developer with a surplus. As it is unlikely that developers would ever reveal their strategies to researchers, this question will probably remain unanswered. Consequently, discussion of the fundamental need for incentives may have to continue on a more theoretic level than desired.

CHAPTER 4

LEGAL PERSPECTIVES

4.1 Introduction

Municipalities cannot act upon a whim; their actions must correspond to powers granted in law. The offering of land use incentives is no exception, and while it is appropriate to ignore legal matters when evaluating incentives, legal sanctions and constraints must be considered when discussing incentives in the real world.

This chapter describes the legal basis and extent of use of land use incentives in Alberta. The equivalent information is then given for the other provinces. Constitutional and common law constraints on the offering of bonuses are discussed subsequently. Last, implications of the repeal of the prohibition on bonuses are scrutinized.

4.2 The legal basis and actual use of land use incentives in Alberta

Alberta municipalities are not explicitly authorized to offer land use incentives of any sort. However, the powers granted to municipalities to describe and control land use through municipal plans and land use bylaws (Planning Act, RSA 1980, Ch. P-9, s. 61-74) provide a means for making density bonuses available. Municipal control of building dimensions, lot coverage and the issuing of development permits, in particular, facilitates the offering of bonuses.

The lot standards in land use bylaws can be legally relaxed in three possible ways. First, the terms of the bylaw -- and, if necessary, of the general municipal plan bylaw -- can be amended in respect of a particular development. Second, the municipal development officer (or municipal planning commission, if so authorized) may exercise discretion in issuing a development permit, to the extent permitted in the bylaw. Third, if so authorized by the bylaw, the development officer may approve a development which does not comply with the land use bylaw so long as it would not interfere with neighbourhood amenities or neighbouring properties and conforms to the prescribed land use for the site (Planning Act, s. 69(5)).

These methods exist to prevent a land use bylaw from becoming overly restrictive, judging by the documented purpose of the third method, viz. " .. to relieve, in well defined circumstances, an owner from the rigors of a strict application of the zoning bylaw" (Alberta Municipal Affairs, 1974, 23). Consequently, there may be grounds for challenge if the powers are exercised primarily to provide an incentive. In all likelihood, such a fear would be unfounded: the point at which a relief measure became an incentive would prove extremely difficult to identify.

Alberta municipalities which have adopted general municipal plans have an additional means of approving development at a greater than normal density at their disposal: the designation of an area as a direct control district (DCD) (RSA 1980, Ch. p-9, s. 70). Furthermore, any municipality can request the Minister of Municipal Affairs to designate an area to be an innovative residential development area (IRDA) (RSA 1980, Ch. P-9, S.149). In a DCD, a municipal council may control development ".. in any manner it considers necessary" (RSA, Ch. P-9, s. 70(2)) while in an IRDA, the council may ".. approve a project for innovative kinds of lower cost residential development whether or not the project is in conformity with any land use by-law" (RSA 1980, Ch. P-9, s. 149(3)).

In practice, Edmonton, Calgary, Red Deer and Lethbridge are the only Alberta municipalities which have offered on-site density bonuses. Furthermore, only in Calgary have the bonuses been regularly utilized (in exchange for Plus 15 amenities); in the other municipalities, actual applications have been few.

Both Edmonton and Calgary provide for the transfer of development rights as an aid to heritage preservation. A small number of transfers have occurred in each city.

Edmonton's major incentives are stated in that city's Downtown Area Redevelopment Plan (City of Edmonton, 1981, 68-70) while the equivalent details for Calgary are included in its Land Use Bylaw (City of Calgary, 1984, s. 142.7-142.23).

4.3 The legal basis and actual use of land use incentives in other provinces

4.3.1 The general situation

A limited survey of provincial officials and legislation (with the exception of those in Quebec) revealed that municipalities in all provinces possess legal authority to offer on-site density bonuses, although very few have chosen to do so. Those that have are some of the largest urban places in the west and Ontario. In practice, little development has proceeded on the basis of density bonuses in the 1980s as regional economic downturns have suppressed developers' activity for varying lengths of time.

Transferred density bonuses (transfers of development rights), likewise, seem capable of being implemented by municipalities in all provinces. However, actual applications are extremely rare, being restricted mainly to the preservation of heritage buildings. Vancouver, Toronto and Ottawa are the only municipalities identified as making use -- or wishing to make use -- of this incentive.

Unfortunately, the extent to which general lot standards have been relaxed by municipalities specifically to attract development is not common knowledge at the provincial level. Consequently, it may be assumed that discretionary relaxation of standards sometimes occur during the development approval process, although how frequently, and for what reason, it is impossible to tell.

The legal basis for municipalities authorizing the development of air space above existing developments resides in their power to zone land and control its use. As far as can be determined, this form of development is rarely practiced.

The legality and practice of offering on-site density bonuses is now outlined province-by-province. To avoid repetition in stating the legal basis in most provinces, the term "zoning and development approval powers" will be used in the descriptions. This refers to the general authority granted municipalities by provincial planning legislation to control building dimensions and densities through zoning (land use) bylaws as well as to require development agreements with or without conditions. The concept of relaxing standards in exchange for amenities is only referred to explicitly in the Ontario and Saskatchewan legislation.

4.3.2 Incentives in individual provinces

4.3.2.1 British Columbia

The authority for offering an on-site density bonus lies in a municipality's standard zoning and development approval powers. Conditions can also be negotiated when land is to be rezoned out of holding status or is zoned as a Comprehensive Development Zone. In practice, however, the tool is little used. The greatest application of the incentive has been in the City of Vancouver, but -- even there -- only a small handful of downtown projects have taken advantage.

The transfer of development rights has only occurred in one municipality, the City of Vancouver. The transfer was achieved through rezoning, one of the statutory powers established in the Vancouver Charter.

4.3.2.2 Saskatchewan

The Planning and Development Act refers specifically to a density bonus as a matter which can be dealt with in a zoning bylaw (s. 83). The reference was only added in 1984 and, to date, Regina is the only municipality which has offered bonuses, although there have not as yet been any takers.

4.3.2.3 Manitoba

Authority for offering density bonuses would lie in the zoning and development approval process, however, no municipalities apart from Winnipeg have tried to make density bonuses available. In practice, little use has been made of the tool in Winnipeg as the economic climate has not been conducive to development.

4.3.2.4 Ontario

As in Saskatchewan, the provincial planning legislation refers explicitly to density bonuses as matters which fall within the scope of a zoning bylaw (Planning Act, s. 36). Indeed, the Saskatchewan provisions were modelled on those of Ontario. In both provinces, the legislation stipulates that the relaxation of standards may be permitted in return for the provision of certain facilities so long as the municipality has an official plan which addresses the authorization of bonuses.

The Ontario legislation neither identifies the relevant facilities or services nor refers to general objectives. However, an official Guideline (Ontario Ministry of Municipal Affairs and Housing, 1983, 6-7) mentions the provision of assisted housing, the preservation of historic buildings and the provision of open space. The Guideline advises that the official plan should state the objectives of the bonus provisions and give details of how the zoning bylaw should implement the bonus policy (e.g. by setting out the "as of right" development standards and the relationship between bonuses and amenities).

The use of density bonuses in Ontario is concentrated in Toronto and the larger urban municipalities in the surrounding area. The province discourages the practice elsewhere because it is felt that ad hoc relaxation of standards could undermine the integrity of the planning process in smaller communities.

Transfers of development rights are not mentioned in the Planning Act but can be implemented through agreements between municipalities and developers. The Cities of Toronto and Ottawa have sanctioned the use of the mechanism to preserve heritage buildings.

4.3.2.5 New Brunswick

If they so desired, New Brunswick municipalities could offer density bonuses through the zoning and development approval process. In reality, density bonuses are not offered; according to one observer, the practice is for municipalities to rezone at will.

4.3.2.6 Nova Scotia

Density bonuses could be offered through the zoning and development approval process but their use is uncommon.

4.3.2.7 Prince Edward Island

As in New Brunswick, municipalities do not offer density bonuses although they could, in theory, during the zoning and development approval process.

4.3.2.8 Newfoundland

Density bonuses could be offered through the zoning and development approval process but have not been used in the small municipalities typical of the province. St. John's is the only centre known to offer such bonuses.

4.4 Constitutional and common law constraints

on the offering of density bonuses

The density bonus is an American creation and, although Canadian law differs in many respects from U.S. law, it is worth reviewing how American municipalities guard against legal challenge. Many of the principles are worth observing, not only because Canada now has a Charter of Rights but also to ensure fair treatment.

In the United States, the right to ownership of property is constitutionally enshrined. This guarantee actively constrains states and municipalities in their management of land use, in company with a guarantee that private property will not be taken for public use without just compensation (Pereboom, 1984, 4).

American municipalities, consequently, have to guard against the possibility that any zoning action may be legally construed as a "taking", thereby entitling a property-owner to compensation. They must also be careful that the net value of the bonus to the developer is sufficient to disincline the developer from taking court action. Similarly, a low "as of right" density must not be established since affected property-owners could seek compensation for an alleged taking of development rights. Indeed, the transfer of development rights was devised as a means of avoiding litigation in circumstances where a municipality wished to preserve a particular structure but was unwilling or unable to provide compensation.

In practice, there has been little litigation of the concept of bonus zoning in the U.S. (Meshenberg, 1976A, 43). Accordingly, it may be concluded that municipalities have been cognizant, by and large, of the legal perils which they could face if property-owners' constitutional rights were not adequately respected. Challenges can arise when developers feel they are benefiting less than the municipality (i.e., they are experiencing expropriation without compensation) or being unfairly forced to provide amenities by underzoning. Neighbours, for their part, may argue that an award of increased density is excessive in relation to the benefit from an amenity, that incentive (bonus) zoning removes the certainty of use of nearby properties and that higher densities will force them to bear additional public servicing costs (Meshenberg, 1976A, 43).

In Canada, the Charter of Rights does not expressly guarantee property rights (Elder and Keeping, 1986, 212). Constitutional grounds for challenging the incentives offered in the name of planning consequently appear rather limited. On the other hand, "only after many years of litigation will the true scope of the Charter be known" (Elder and Keeping, 1986, 209). At the present time, the scope for challenge appears to be limited by the common law position that any diminution in property value caused by a planning decision is not compensable (Laux, 1979, 49). In Alberta, moreover, the position is reinforced by statute law. The Planning Act specifically states that, with certain exceptions, " .. nothing in [the] Act or the regulations or in any regional plan, ministerial regional plan, statutory plan, replotting scheme or land use by-law gives a person a right to compensation" (RSA 1980, Ch. P-9, s. 5).

Judicial concern over "legitimate planning purposes" (Laux, 1979, 53) makes it incumbent upon Canadian municipalities to ensure that land use incentives are sanctioned by the relevant planning legislation and clearly promote the stated objectives of the legislation. The incentives should also be available throughout all the areas assigned the same zoning designation. The absence of uniform regulations and the use of discretion may bring allegations of discrimination and a challenge under the Charter's guarantee of the equal protection of the law (Baker, 1984, 8-10; Elder and Keeping, 1986, 210). Furthermore, it is possible that discrimination could be alleged if standards (e.g. "as of right" building density) were reduced simply to increase the attractiveness of a bonus programme.

4.5 The implications of the repeal of the prohibition on bonuses

With the repeal of s. 443 of the Municipal Government Act, no reference to bonuses -- however defined -- is to be found in any Alberta statute conferring powers upon municipalities. As a result, it might be argued -- albeit with difficulty -- that, since the Municipal Government Act does not now explicitly forbid the offering of incentives, a municipality could (if it so chose) make density bonuses available under the authority of that act rather than the Planning Act. One ramification of this possibility could be the offering of density bonuses by municipalities for the most general of reasons -- or even for no stated reason -- thereby raising the question of whether a legitimate planning purpose was being served.

Fortunately, there would seem to be limited grounds for concern. According to an expert in Alberta Planning Law, " ... the repeal of s. 443 does not have the effect of rendering bonuses and tax exemptions by municipal councils lawful in Alberta" (Laux, 1987, 240). In the absence of new enabling legislation, therefore, a municipality's power to offer incentives is no different than before; the Planning Act remains the only authority for the granting of density bonuses. Moreover, if the power to offer density bonuses were to be stated explicitly in legislation, the Planning Act would be the appropriate place.

CHAPTER 5

DESIRABLE ELEMENTS OF AN INCENTIVE PROGRAMME

5.1 Introduction

A municipality contemplating an incentive policy based on density bonuses would have to weigh a variety of factors for the policy to prove successful. In an attempt to indicate the key design considerations, this chapter suggests some desirable elements of a density bonus programme. The exploration synthesizes the material presented in the preceding chapters and draws upon a number of published statements, some of which are paraphrased in Appendices I and J.

5.2 The availability of bonuses "as of right"

Density bonuses should be made available to all developers "as of right", with the available options being published in a municipal bylaw, policy or procedure. The degree of discretion that a municipality is free to exercise is thereby limited. This approach has an edge over ad hoc decision-making, under which the quid pro quos relating to a particular development are negotiated between the municipality and the developer.

The "as of right" school maintains that the discretion left to the municipality should be minimized. The municipal government, of course, assumes responsibility for offering an incentive but a transparently arbitrary use of the practice not only invites legal challenge but may also be condemned as inequitable. The quid pro quos in an on-site density bonus arrangement must, therefore, be consistent among all developers seeking to develop property in a particular zoning district: a requirement that makes the rezoning of individual sites unnecessary.

The argument in favour of negotiated incentives centres on the perceived superiority of negotiation over the use of a fixed schedule of incentives. Although accepting the need to be cognizant of planning objectives, advocates of flexibility feel that negotiation offers the municipality a better opportunity to consider the impacts of a particular development and respond to current market conditions (City of Ottawa, 1985, 2). However, the development conditions agreed for each project must be formalized in a site rezoning: an undesirable planning practice if it occurs frequently.

The "as of right" approach is preferred because it seems more likely to ensure regard for the community's land use goals (as established in the general municipal plan) when amenities and bonuses are being selected. Moreover, the desirable attributes of the planning system -- of which general municipal plans and land use bylaws are integral parts -- are more likely to be present.

According to the reviewers of the former planning legislation in Ontario (Ontario Planning Act Review Committee, 1977, 12-4), planning should be typified by rationality, consistency, intelligibility, certainty and fair treatment. Zoning bylaws, consequently, should provide residents and property owners with reasonable certainty and predictability as to the kind and intensity of development that will be permitted (Ontario Planning Act Review Committee, 1977, 93). The need for publication of details ensures that "as of right" bonus arrangements will be characterized by these two qualities. The relationship between planning objectives, amenities and incentives will be consistent.

Even if the availability of bonuses is public information, some critics may argue that an increase in density above the maximum stated in a land use bylaw in fact undermines the element of "predictability". Indeed, one has actually described the practice as "deception" (Sewell, 1986, A8). The onus is on the municipality to defuse such criticisms by keeping the public well-informed and by ensuring that the public gain will balance the "encroachment due to liberalization of the zoning provisions" (Goodman and Freund, 1968, 430-1).

It is also worth remembering that bonus density is usually added to downtown lots, where there is limited low-density residential development to be adversely affected. Downtown properties may also fall within areas designated as Direct Control Districts, in which case the neighbouring properties should not expect the use of land to be as predictable as in other land use districts.

5.3 Indexing of bonuses

The size of a bonus should be linked to current economic conditions if the incentive quality is to be maintained. The example of an American municipality may be followed. Acknowledging that the value of the bonuses in a schedule may alter with time, the City of Seattle has indexed FAR bonuses for low-income housing to changes in land values, housing construction costs and household incomes (Zoning News, September 1985, 3). In the process, a seemingly inflexible schedules of amenities and bonuses has been made more responsive to a changing environment.

5.4 Bonuses for mandatory improvements

A municipality may hedge against the possibility of an incentive programme failing to generate a response from developers. Bonuses for mandatory improvements can be combined with bonuses for elective improvements, as in the City of Calgary (City of Calgary, 1984, s. 42.3). In essence, all developers in a specific land use district are required to provide certain basic amenities, for which they are compensated by additions to the permitted FAR. Further additions to the FAR can be obtained by providing other amenities voluntarily.

5.5 A reasonable "as of right" density standard

Irrespective of the category of zoning district, the municipality must select an "as of right" (i.e. bonus-free) density cautiously. Too low a density standard may not only be politically unpopular but legally contentious if "reasonable use of the property" is precluded. By contrast, too high a standard will reduce the pressure on a developer to accept an incentive (Alexander, 1982, 41-2). In Alberta, however, the principal problem confronting a municipality which wishes to offer density bonuses may be deciding how much to reduce the existing "as of right" densities if a bonus arrangement is to be sufficiently alluring: a task performed by the City of Toronto some years ago (Nader, 1975, 277).

5.6 Long-term net benefits to the municipality and developer

Both parties to a bonus arrangement must be assured of a long-term net benefit. The municipality, on the one hand, expects to be supplied not only with an amenity but also sufficient tax revenue from the new development to cover the long-term maintenance costs of the amenity and all the public costs associated with the development. The developer, on the other hand, must be offered sufficient extra density to generate income in excess of the cost of the amenity.

5.7 Relevance to locality

Given the geography of urban land values, density bonuses are appropriate inducements in the high-density, intensively-developed inner areas of a community but less so elsewhere. Consequently, a municipality would be advised to offer different incentives in different parts of the built-up area if it expects geographically-specific planning objectives to be achieved. The relaxation of lot standards would seem to be more attractive to developers of sites in other areas.

CHAPTER 6
THE APPROPRIATENESS OF LAND USE
INCENTIVES IN ALBERTA

6.1 Introduction

This report has drawn upon interviews and published data to present an overview of land use incentives that have been offered to developers by municipalities in North America. The incentives were identified and incentive policies classified according to objective. The strengths and weaknesses of the various incentives were then described from the positions of the municipality, the community and the developer. A discussion of legal considerations followed. Last, the insights gained from the research were used to map out the desirable elements of a density-related incentive programme.

On balance, the strengths would appear to justify the use of such inducements if municipalities are seeking to introduce added flexibility into the control of land use and development. In this regard, Alberta municipalities stand to benefit as much as similar urban places elsewhere. However, it is evident from the preceding chapters that some municipalities may be better suited than others to profit from the adoption of incentives. Whether Alberta municipalities should offer land use incentives consequently becomes a vexed question to which there is no easy answer. Much of the material quoted in this report refers to -- or was obtained from -- municipalities which are cities in size, form and function. It follows that the incentives described, being designed to appeal to developers in a particular type of urban environment, may not be as relevant or as efficacious in the small rural service centre characteristic of the Alberta settlement network.

If it is felt that government intervention in the market place should be contained, a case exists for prohibiting all forms of land use incentive. If financial incentives were also prohibited, development would be concentrated in those municipalities whose intrinsic characteristics and growth prospects offered the greatest opportunity for private gain. Support of an interventionist role, on the other hand, does not imply the automatic offering of land use incentives. A province's municipalities should not be empowered to offer such incentives unless the province is convinced of the incentives' benefits and appropriateness. Conclusions on the potential utility of each land use incentive must be drawn, therefore.

6.2 On-site density bonuses

The first, the on-site density bonus, is effective in facilitating development and generating amenities when urban growth is expected, a central location is essential to a developer and the developed floor space in a project must be maximized if the developer is to recover his investment in high value land. When growth is in prospect, the sale or lease of new property is more assured than in a flat market. Consequently, a developer will be more prepared to pay a premium -- in the form of an amenity -- to obtain approval of "overheight" construction. However, the developer's need for centrality seems likely to vary with the size and area of a community.

The peaking of land values in the downtown is explained by uses bidding against each other to occupy the most accessible location in the community. In a large community, the need for those uses to be centrally located may be more critical than in a small community since the distance between a location at the fringe of the central business district and the maximum rent intersection will be proportionately greater. Moreover, in the small town, any location is within easy reach of all others. The CBD's absolute advantage in accessibility may be sufficiently small that a developer can substitute a more extensive development on cheaper land for a very centralized development without experiencing difficulty in selling or leasing the property.

In the small town, land values are of a substantially lower magnitude, the gradient of land values is gentler and the form of the community more compact. Given the lower cost of land, a developer may feel under less pressure to maximize the intensity of use of centrally located land. If this hypothesis is correct, the on-site bonus will be inconsequential in smaller communities: the developer can create his intended floor space at a second-choice location, without having to rely on the bonus; the municipality does not acquire an amenity.

A related issue is the weight that small municipalities attach to the acquisition of public amenities at no expense. If the municipalities are unenthusiastic, the on-site density bonus serves no identifiable planning purpose, raising serious questions over its *raison d'etre*. Judging by their character, many of the amenities sought by "big cities" are intended to ensure accessibility, space and stimuli for

pedestrians in the city centre: an area whose physical mass might easily become oppressive if designed with insufficient consideration for human needs and values. Most Alberta communities, however, appear to be characterized by a "human" scale of physical development: high-rise buildings are virtually absent, roads and sidewalks are uncrowded and the overall impression is one of spaciousness. As a result, some of the downtown amenities which enhance the quality of life of a large city may not be relevant to the needs of a small community. Nevertheless, all municipalities are likely to be receptive to the notion of obtaining something for nothing.

Assuming a municipal desire to acquire amenities, benches and small parks are likely the principal types of amenity which a small municipality would welcome. The relatively high percentage of elderly residents would appear to indicate a demand for such facilities and ensure a reasonable level of use. Low-income housing may also be sought if the municipality has adopted a planning policy supporting the provision of a range of housing types. In addition, small-scale cultural facilities (e.g. museum space) might be desired but the long-term operating costs would have to be considered carefully by the municipality. Other amenities such as plazas, above-grade walkways and arcades would not be sought by small communities.

Whether it is realistic for a small community to ask a developer to provide the preferred amenities is another consideration. A developer is naturally reluctant to spend any more than necessary on a project and will resist incurring any expenditures that are not outweighed by the benefit bestowed by the municipality. Accordingly, if the municipality's demands were excessive, there would be no overriding reason for a developer to invest in the community -- and accept the municipality's conditions -- if alternative investment opportunities were available in other communities who were less demanding.

In a rapidly-growing community, by contrast, the negotiating position of the municipality would be stronger. The developer's risk would be less than in other communities, making that community more attractive for investment and developers less ready to scan the opportunities elsewhere. In the Alberta of the late 1980s, however, there are no rapidly-growing communities: slow- or no-growth is the norm. Municipal councils can only bargain from a position of weakness with developers.

The smaller community could increase its leverage vis-a-vis the developer by offering bonuses in the wake of a comprehensive downzoning. However, the latter action could be criticized as a flagrant abuse of the fundamental principles of zoning. On the whole, therefore, the on-site density bonus seems more appropriate to only the largest communities in the province. Even if growth were occurring in the majority of places, the physical distances within communities would appear to be a critical factor determining the success of the on-site density bonus.

6.3 Transferred density bonuses

The transferred density bonus also tends to be more oriented towards larger centres -- but could be applied in smaller communities in very specific instances. The prerequisites for its use in preserving an historic building are the building's occupation of a potentially high value site and a strong desire by developers to create new floor space. The downtown of a large and growing urban place therefore provides the most appropriate setting for an application. If the desire to add density to a site does not outweigh the cost of purchasing the development rights from another site, the incentive will fail: a likely outcome in those communities where the need for a highly centralized development site is less critical.

This type of bonus may also prove its worth in rural municipalities if urban development is encroaching upon open space. If the open space is deemed to be worth preserving for agricultural, recreational or environmental reasons, developers may respond enthusiastically to the prospect of the development rights of their land being transferred to a designated area within the municipality where the rights are recalculated as if the donating site were in higher density, urban use. Such an application would not require the receiving site to be in a downtown.

6.4 Relaxation of lot standards

Taken to an extreme, the relaxation of standards -- by whatever means -- can substitute ad hoc land use control for a comprehensive scheme of zoning characterized by certainty and predictability. The practice should therefore be discouraged (except in special cases where the zoning regulations would impose an unnecessary hardship), even though a loosening of controls appears to be the only

land use incentive which could potentially interest developers at any site in any community. Moreover, it probably exerts little or no influence on most developers when they weigh the attractions of alternative communities. The location of residential and retail construction is influenced primarily by market size, growth potential and relative location; a developer is not going to build homes or stores in a community where there is no demand for his product, however much lot standards have been relaxed.

6.5 Authorized development of air space above existing developments

The authorized development of air space would appear to possess little potential as an incentive in the context of Alberta municipalities. The western tradition has been to demolish rather than attempt to preserve older buildings. Moreover, there are relatively few non-institutional buildings of outstanding historical or architectural merit in the downtowns of the larger urban centres, where the developers' need for centrality is greatest. There are consequently few sites where the incentive would be of interest.

Extensive downtown railway yards are similarly confined to a handful of the larger cities, where proposed or implemented redevelopment plans have normally involved the relocation of the yards, not the construction of a superstructure.

6.6 Conclusions

The preceding observations suggest that the incentives discussed in this report are more appropriate to conditions in major urban centres than to the situation in smaller Alberta communities. This is not to say that they would prove ineffectual in the context of small towns. If a developer is willing to pay a premium in the form of an amenity to have permitted density on a sites increased, there is no outstanding reason why he should be frustrated. As long as the amenities bear some relation to planning policies and due care has been taken to avoid creating inequities, a municipality should not feel constrained in approving the arrangement.

What is more at issue is the likelihood of a developer seeking an increase in density. Developers are probably more eager to exchange amenities for density, the more a property market is flourishing. Consequently, the poor growth prospects of most Alberta communities are bound to discourage investment in property

development; to increase the floor area of a development would be to assume a greater risk. Faced with this low propensity to invest, municipalities would be ill-advised to rely solely on bonus arrangements to provide desired public amenities. Furthermore, it is by no means certain that the renewed growth of the provincial economy would revive the fortunes of all the province's communities. The dynamics of retailing and the grain industry are causing some places to drop functions, consigning those communities to a future of stagnation or decline.

6.7 Recommendations

The preceding overview suggests that most land use incentives might only play a minor role in the development of most Alberta municipalities. The primary reason is that on-site density bonuses, transferred density bonuses and the authorized development of air space above existing properties were initially devised to achieve objectives in a specific geographic milieu: the central business district of a large city. The ad hoc relaxation of lot standards, by contrast, is an incentive which could be offered in any part of any municipality but is undesirable for philosophical and ethical reasons.

Despite these shortcomings, land use incentives offer individual municipalities an element of flexibility in attracting development and achieving established planning objectives. Unfortunately, the ramifications of the widespread use of these incentives are unknown. If, for example, many or all municipalities offered the same inducements, the communities' inherent differences in attractiveness as development locations might be exacerbated; the competitive advantages of larger centres might simply be increased. Further investigation remains to be undertaken.

The benefits of including references to land use incentives in planning legislation might be worth evaluating. At present, a municipality may offer a density bonus through the power to provide for building height and area in its land use bylaw. The terms of specific enabling legislation might require a municipality to be more consistent in its use of incentives and to relate an incentive explicitly to

legitimate planning objectives. In any event, a review would be valuable in clarifying whether land use incentives should be supported in principle. Not only the inter-municipal ramifications but also the general experience with incentive practices in North America would have to be considered carefully.

Additional information should be gathered on developers' attitudes towards land use incentives and the amenities that could be sought from developers in small communities. It would also be desirable to know how developers would behave in the absence of municipal stimuli. Such information would establish the degree of need for incentives. To be realistic, however, any insights into this particular issue are more likely to be derived from conjecture rather than fact.



**Implications of Municipal Financial
Incentives and Development Concessions**

Submitted to

Alberta Municipal Affairs

Submitted By

**Nichols Applied Management
Economic and Management Consultants**

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APPENDIX

Annotated Bibliography



1. INTRODUCTION

The Municipal Government Act of the Province of Alberta, until recent times, restricted municipalities from granting bonuses or exempting taxation in respect of any business. Section 443 of the Act¹ which details this matter was repealed in the last sitting of the legislature in 1986, subsequent to pressure for its amendment.

Provincial legislators are now in a position to re-enact Section 443, enact modified legislation, or leave municipalities unrestricted² in regards to bonuses and tax abatement. Nichols Applied Management was asked by Alberta Municipal Affairs to investigate the likely impacts that incentives, bonuses and concessions have on a municipality. The focus of the study is to review incentives and concessions of a financial nature. Of particular interest are: the potential for influencing locational decisions; the short to long-range impacts of incentives; and the impact on municipalities. In other words, how effective are fiscal incentives in terms of encouraging developments and what are the costs to the local jurisdictions. In the Alberta context, this study is directed to small to medium sized communities.

1.1 STUDY APPROACH AND METHODOLOGY

The first objective of the study was to establish an "inventory" of fiscal incentives used by municipalities in Alberta, elsewhere in Canada, and the United States. An extensive literature review was undertaken with the assistance of Municipal Affairs Library Staff. Computer-accessed data bases were made available through the co-operation of the Department. Subsequent to review of numerous articles and some legislation, an annotated bibliography was prepared and is found in the Appendix. Most references were directed to American experiences with tax incentives, which are extensive. There are limited Canadian examples and therefore telephone interviews were conducted with selected relevant officials in other provinces.

1. R.S.A. 1980, c.M-26.

443(1) No Council has power

(a) to grant a bonus or other aid to any person, for the construction, establishment or operation of any manufacturing, mill, railway or other business or concern whatever, or,

(b) to exempt from taxation any manufacturing, mill, railway or other business or concern, to subscribe for stock therein or to guarantee the bonds, debentures or other securities thereof.

(2) If a council attempts to pass a by-law contrary to subsection (1) in regard to bonusing, a member of the council voting in favour of the by-law

(a) is guilty of an offence and liable to a fine of not less than \$50 and not more than \$100 and in default of payment to imprisonment for a term not exceeding 60 days, and

(b) is disqualified for a period of 3 years from holding any municipal office.

(3) This section does not apply to

(a) an agreement in existence on June 1, 1968 between the municipality and any person,

(b) the disposal of any land or estate or interest in land in accordance with section 127, or

(c) an agreement under section 354.

2. As indicated in Laux, F.A., Alberta Law Review XXV, 2, 1987 pp 224-248, municipalities may not be free to provide bonuses, even in the absence of Section 443.

An inventory of the various tax incentives and relevant examples was developed from the information gathered and constitutes Section 2 of this report.

The second task of the study was to consider in depth the incentive practices of a number of smaller Alberta municipalities. Communities were selected in consultation with Municipal Affairs staff. Specifically, Camrose, Grande Prairie, Stony Plain and Spruce Grove were chosen for case study. An interview format was developed and personal interviews with the economic development officer, city manager and other officials were conducted. Results of the interviews were compiled and are discussed in Section 3. The objectives of the case studies were to determine:

- types of economic development activities undertaken of a financial nature;
- effectiveness of these measures; and,
- further measures the community would like to employ.

A few businesses in these communities were also contacted.

A summary and evaluation of the observations based on the literature review and case studies are provided in Section 4. As noted earlier, the Appendix contains a detailed bibliography.

2. ALTERNATIVE INCENTIVE MEASURES

2.1 INTRODUCTION

There are a number of financial inducements local jurisdictions can offer firms with the goal of encouraging new development or the retention and expansion of existing businesses. A review of relevant planning and financial literature results in three broad categories of fiscal incentives: taxation measures, financing measures, and special inducements. Table 1 provides a brief outline of the various measures which fall under each of the three categories. The sections which follow discuss each category and provide a limited number of examples.

The United States provides a wealth of cases. Municipalities in all 50 states offer financial incentives or assistance in one form or another. Table 2 clearly demonstrates the extensive use of financial incentives by showing the number of states employing the various measures listed.

The Canadian experience, on the other hand, has been relatively limited. In some provinces, including Ontario and Manitoba, the provision of financial incentives or bonuses in order to encourage development is explicitly forbidden in legislation. There are still means, however, whereby municipalities in these jurisdictions can offer inducements to private concerns and stay within the letter, if not the intent, of the law. In several provinces, including Alberta, municipalities have some discretion in offering incentives, although their use does not appear to be widespread. Nova Scotia has reduced the applicability of incentives with the goal of eliminating them entirely, while British Columbia and Saskatchewan have recently adopted new initiatives that will result in expanding their use. The legislative provisions and practices regarding incentives in Canadian and American jurisdictions are discussed in the following sections.

2.2 TAXATION MEASURES

Local taxation is a matter over which a municipality has direct control. Therefore, property tax abatement is an incentive commonly used by local jurisdictions to promote investment, as evidenced by Table 2, whereby 41 states actively use this incentive. Tax abatement refers to a "forgiven" tax on property, improvements, or machinery and equipment. Property tax may be abated in whole or part for a specified period of time. It may also be restricted within particular "reinvestment areas" or "enterprise zones". In many instances it is applied universally for a specified investment activity, for example manufacturing and processing. Tax abatements may be directed to renovation and improvements to existing structures. However, new construction may also be eligible, usually within a defined area.

Local jurisdictions may freeze the assessed value of real property at a fixed point in time; reduce the tax rate for a certain time period; or exempt properties from all or part of local taxation.

Table 1

Municipally Employed Financial Incentives for Local Development

TAXATION MEASURES

Property Taxes

Temporary or permanent abatement of land and improvement taxes

- may apply to total property (including previously existing) or to increased assessment only
- may apply during period of construction only
- may apply in specified localities or areas only (e.g. enterprise zones)

Temporary or permanent abatement of machinery and equipment taxes

- may apply to all machinery and equipment or to new machinery and equipment only
- may apply only to specific types of equipment - e.g. computers, agricultural processing, pollution control
- may apply in specified localities or areas only

General non-assessment or non-taxation of machinery and equipment

Reassessment to lower values, typically to reflect current land use

Business taxes

Temporary or permanent abatement of business taxes

General non-assessment of business taxes

Other taxes

(not applicable to Alberta)

Temporary or permanent abatement of locally levied sales, use, excise, income and inventory taxes

Individually negotiated tax agreements incorporating local property and income taxes

FINANCING MEASURES

Loans

- at below market interest rates or availability
- for new building construction
- for new machinery and equipment
- for public projects and infrastructure

Loan guarantees

- enables lower interest rates
- for new building construction
- for new machinery and equipment

Bond financing

- industrial revenue and general obligation (i.e. debenture) bond financing
- applied to site acquisition and development as well as construction and equipment



Table 1 cont'd**Grants**

- direct grants to businesses
- possibly financed by higher level of government although local discretion

Tax increment financing

- increases in tax base are used to finance public improvements to in turn promote economic development
- restricted within specified zone

SPECIAL INDUCEMENTS**Local financed speculative buildings (e.g. incubators) and research parks**

- lease rates below market levels
- joint ventures with private and other public organization

Locally owned/developed industrial parks and other sites

- land leased or sold below market rates
- land provided at no cost
- costs of servicing provided at reduced levels

Lease guarantees

- municipality agrees to lease space or facility (e.g. parking structure)

Waiver of payments or provisions

- elimination of permit and other municipal fees
- waiver of lot levies and development charges (e.g. for off-site services)
- reduction or elimination of payments-in-lieu (e.g. for provision of parking)



Table 2
Incidence of Incentive Measures
in the United States

Measure	Number of States with Municipalities Employing Measure
Property tax abatement ¹	41
Local loans	29
Local loan guarantees	8
Local bond financing ²	50
Speculative buildings	27 ³
Provision of free land	24 ⁴
Municipally owned industrial parks	49

¹ Includes land, improvements, and machinery and equipment

² Industrial revenue bonds are used in all states but one, while municipalities in 33 states utilize general obligation bond financing.

³ Used in rare or restricted circumstances in 4 of these states.

⁴ Used in rare or restricted circumstances in 17 of these states.

Sources: Industrial Development and Site Selection Handbook, October 1986. Conway Data Inc., Norcross, Georgia; and Directory for Incentives for Business Involvement and Development in the United States, Urban Institute, 1983.



In a number of cases, property tax abatement takes the form of forgiven taxes on a declining scale for a specified period of time; for example: 100% in year one, declining to 5% in year ten. Legislation enabling local jurisdictions to abate taxes usually places limits on the number of years and amount that may be forgiven. In general, no differentiation is made among applicant firms.

Business taxes can also be used to provide financial concessions. In the Alberta context, many communities advertise their lack of a business tax as an attractive feature for location. A business tax could also be reduced or forgiven completely to encourage certain types of business activity.

Other local taxes not applicable to Alberta or indeed Canada include: local sales tax, use tax, excise tax, inventory tax and local income tax. The latter provide further opportunities for tax concessions in the United States at the municipal level.

Tax abatement is a tool used to encourage development and revitalization in the community. Its effectiveness is questioned in terms of the degree of impact on the investment decision, foregone tax revenue, universal application and administrative expense. There is concern that if all municipalities within a region offer tax abatements, then their effectiveness is minimal. Meanwhile, local jurisdictions still incur a loss due to the revenue forfeited. Also universal application and awarding of maximum amounts do not differentiate those firms who would locate anyway from those upon which the program has a real impact.

On the other hand, property tax abatement is one of the few incentives local jurisdictions can employ to encourage investment. It can also be implemented with relative ease. A number of examples of particular applications are provided in Table 3.

2.3 FINANCING MEASURES

In the United States there has been a widespread practice of assisting private investment through a number of financing measures. In Canada, municipalities do not have the opportunity to become involved in equity or bond financing for reasons related to income tax legislation. There is no question that financing assistance, particularly equity financing, is very helpful to firms and would likely influence their location, all other factors of labour, cost and market being relatively equal.

Industrial Revenue Bond (IRB) financing, used in forty-nine states, is a means of raising capital for private projects through municipal bond issue. Besides lower interest rates, tax advantages encourage this means of financing.

In a much fewer number of states, direct loans or loan guarantees are offered. Involvement in financing places municipalities in a position of risk-taker.

**TABLE 3
EXAMPLES OF TAX ABATEMENT**

Location	Program
Alberta	Tax Abatement - municipalities can cancel or refund taxes on properties for unspecified reasons (Municipal Taxation Act, s 106(a)) - require annual council decision - rarely employed for incentives
Edmonton	- the provision of hard development concessions (defined as having an identifiable cost to the City) - restricted to projects proposed prior to 1988 and located in the downtown redevelopment plan area - annual waiver of taxes for up to 5 years, requiring annual council approval
Sexsmith	- waive 75% of taxes in first year, 50% second year, and 25% third year (requiring annual council approval) - evaluated and approved on an individual project basis - new program - not yet utilized.
British Columbia	Municipal Partnership Agreement - allows municipalities that sign an agreement with the B.C. government to allow 50-100% of tax relief from 1986 to 1990. - province pays the matching percentage of non-residential school tax. - eligible firms must be involved in manufacturing, film industry, or food processing. New investment or an expansion doubling in size would be eligible. - the business licence fee may also be reduced.
Saskatchewan	Tax Abatement - legislation enacted in 1985 allows local jurisdictions to waive taxes for a period of up to 5 years.
Regina	- business and property tax (on land and improvements) are dropped entirely for a maximum of 2 years. - eligible firms must be involved in manufacturing and processing; involve capital commitment; and generate local employment. - 3 firms have been granted tax breaks to date (11 applications).



Table 3 cont'd

Nova Scotia

Machinery and Equipment Tax Abatement

- municipalities may rebate 85% of the machinery and equipment taxes levied on the first \$1 million of assessment
- subject to Lieutenant-Governor-in-Council approval - unstated policy is to approve concessions for large industries but not for small
- prior to 1987, all municipal taxes could be abated

Industrial Estates Ltd. Act

- enables waiving of all property taxes on properties within industrial parks established under this act
- used infrequently

Prince Edward
Island**Tax Abatement**

- municipalities may offer property tax rebates for unspecified purposes
- urban centres have utilized this provision to offer incentives for development

Newfoundland

Tax Abatement

- municipalities can grant exemptions to any property
- utilized by about 10% of municipalities to exempt commercial and Industrial property owners
- also used in the preservation of heritage buildings
- large industries (e.g. Iron Ore Co. of Canada in Labrador City) negotiate fixed property tax levels with the province.

Ohio

Community Reinvestment Areas

- a property tax abatement program for new buildings or improvements to existing buildings within a defined "community reinvestment area".
- all firms within area receive the same abatement.
- the tax break is on buildings only. Firms still pay business tax, machinery and equipment tax, sales tax, local income tax, etc. where applicable.
- benefit flows to the property owner, not necessarily the business operator.

Table 3 cont'd**Kentucky****Kentucky Enterprise Zone Program**

- local governments apply to the Enterprise Zone Authority to establish a designated enterprise zone. The latter must meet particular unemployment and low income criteria.
- in addition to several state tax incentives, local governments may grant local tax incentives or flexibility in local regulations.

Minnesota**Property Tax Deferral**

- developers of property in particular districts may request deferral of property tax in initial stages of development which may extend until the building is 50% occupied.

Enterprise Zone

- eligible businesses within the designated enterprise zone are entitled to a 50% property tax abatement for the first 12 years.
- directed to industrial development and the creation of new employment.

Michigan**Property Tax Abatement**

- provides full property tax abatement to firms that are rehabilitating existing property and 50% to newly investing firms.
- the school portion of the property tax abated is assumed by the state.
- the maximum award was granted to all applicants in 1982.

Indiana**Property Tax Abatement**

- "Urban Development Areas" or redevelopment districts are established
- property tax abatements are scaled over a ten-year period (100% reduction in year one to 5% in year ten).
- the abatement is calculated on the increased assessment value due to the improvements made.
- granted to all taxpayers making improvements to real property within a designated area.

Illinois**Property Tax Abatement**

- local taxing district may abate any portion of their taxes applying to new industry or firms expanding existing facilities.
- can extend for up to 10 years not to exceed \$1 million in taxes forgiven.



Tax Increment financing or TIF is not a direct financial incentive per se. TIF was introduced in the fifties in California as a means of financing public expenditures through the incremental taxes resulting from increased property assessment in the area where those public improvements were undertaken. According to D. Schwanke (*Urban Land*, May, 1983), tax increment financing is a "technique based on the idea that public investment can be used to encourage private development, which can generate taxes to pay for the original public expenditure".

Initially TIF was limited to "blighted" areas. Criteria for establishing TIF districts included unemployment levels, number of welfare recipients, etc. Tax increment financing is now widely used by nearly 40 states, in growing suburban communities as well as areas of decline in major cities.

Boundaries of a TIF district are designated and a base year of assessment within the area is established. From then on tax revenue collected on increases in assessment is placed in a special fund. Public projects are financed through a bond issue which is in turn repaid by the fund.

Where a number of taxing authorities are involved, the City benefits from a sharing of the costs of the public projects undertaken. Tax increments from all taxing jurisdictions are placed in the TIF fund which will finance the improvement made in the TIF district. Typically, the tax increment is defined as either the taxes corresponding to assessment increases since a base year; or overall tax increases since that time. In municipalities where assessment or taxes (in the latter case) increase for reasons other than new development (e.g. inflation), the portion of the tax increment corresponding to those increases represents a direct loss to the municipality.

2.4 SPECIAL INDUCEMENTS

A third area of financial incentives for development has been grouped under *special inducements*. Reference to Table 1 provides an overview of areas included.

One inducement which currently is employed in Alberta, as well as elsewhere, is the provision of *incubators*. An incubator is a locally or jointly-financed building which generally offers fledgling firms below market lease rates; technical, research and administrative support; shared computer and laboratory facilities; management training; consulting services; and in some cases financial assistance. Incubators may be a joint project of the municipality and university. In Alberta one local jurisdiction combined efforts with a federal Canada Manpower program.

Aimed at small business, an incubator can help firms survive in the early stages when businesses fail. Table 5 provides some examples of incubators in a variety of locations.



TABLE 4
EXAMPLES OF TAX INCREMENT FINANCING

Location	Program
MANY STATES	- many states limit land in area to 5% of the County. - intended for areas that would not develop otherwise or areas in need of redevelopment (<i>blight</i>). - must be used for redevelopment expenses.
Colorado	- increments from property tax and municipal sales tax allowed.
Minnesota	- made it possible to tax increments from one district to another
Maryland	- TIF Act created to allow counties and municipalities to set up TIF districts, issue tax allocation bonds (tax increment from new development or increased values use to pay off bond). - state law limits TIF districts to 10% of the County land area.
Prince George County (in Maryland)	- blighted areas not the focus of TIF's. - essentially a bedroom community with a limited share of metro growth in commercial and industrial activity.



TABLE 5
EXAMPLES OF INCUBATORS

Location	Program
Camrose, Alberta	- joint project with Canada Manpower financing a building on city-owned land. - rental space provided at below market rent. - common secretarial, computer and other administrative support available, with costs charged back as incurred. - administrative expenses paid for by Canada Manpower for first five years. - firms can only stay for a maximum of two years.
Ontario	- 7 centres established; only 1 is operated by a municipality (Brantford). - cost shared by province and non-profit agency. - each centre negotiated individually.
Brantford, Ontario	- converted existing facility. - province pays for renovation, general operating, and on-site (business development officer and secretary) expense. - Brantford provides space and pays realty and business taxes.
Akron, Ohio	Industrial Incubator - old steel manufacturing plant was converted to an "incubator". - can house 13 to 15 small businesses renting from 500 to 3,000 square feet. - rental rates slightly below market. - \$330,000 revolving loan fund to finance incubator companies by the City. - free management consulting provided by the University.



A common practice of local jurisdictions is the municipal development of industrial parks. After incurring the front-end costs of development, municipalities often lease or sell serviced industrial land at below market rates or at rates which do not accurately reflect the costs of services and infrastructure provided. In some cases land may be provided at no cost to entice industry which will create jobs and future tax revenue for the community.

In Edmonton and Calgary research parks have been financed and developed by the respective municipalities to attract research oriented industry.

Municipalities can also guarantee to lease space or facilities (such as a parking garage). Having a secured tenant assists developers in obtaining financing. If lease arrangements are negotiated above market rates, this special inducement has an even greater fiscal impact on the financial feasibility of a private project. Special incentives in terms of giving up laneways, etc. can also be interpreted as a special fiscal inducement.

Finally, jurisdictions in some instances waive permit or other municipal fees and levies. In Alberta, a number of municipalities during the so-called boom years were able to secure commitments from land developers to pay various developer charges for local facilities and services (e.g. recreational facilities) or provide in kind. With the subsequent downturn, many of these obligations have been waived in order to encourage continuing development.



3. ALBERTA CASE STUDIES

3.1 INTRODUCTION

Through discussions with Alberta Municipal Affairs, the four centres of Camrose, Grande Prairie, Spruce Grove, and Stony Plain were selected for in-depth analysis of their current practice and opinions in respect of financial incentives to local development. These communities were considered to represent a cross-section of medium-sized centres in terms of financial condition and geographic situation.

The consultants conducted semi-structured personal interviews with senior administrative officials from each community. In addition, discussions were also held with individuals from a number of companies who had located in these centres.

The topics covered in the interviews included the following:

- current economic development activities undertaken by the municipality;
- relative priorities: new firms versus existing businesses;
- specific financial incentives employed;
- other incentives viewed as desirable but not used currently;
- affordability of financial incentives;
- examples of firms where incentives were used or had an impact;
- degree of involvement in industrial and commercial land development; and,
- examples of firms locating elsewhere in part due to incentives or lack thereof.

The firms interviewed were questioned as to the primary reasons for their current location, the nature of any help provided by the municipality for such location and the extent to which any such municipal involvement affected their locational decision.

The four communities are discussed in turn in the sections following. As a result of the discussions with the four selected municipalities, two other centres - Wetaskiwin and Sexsmith - were contacted in respect of their approaches to encouraging local development. These latter two communities are discussed in a subsequent section.

3.2 CAMROSE

The City of Camrose, through its Economic Development Coordinator, engages in a variety of economic development activities aimed primarily at encouraging new businesses to locate within the City. The primary incentives of a financial nature are outlined below.

- Tax abatement through employing "functional obsolescence" on specific buildings in order to reduce property taxes for a period of from one to three years. A condition of this practice is that any reduction is passed on to any lessees by way of lower rental rates.

- A one-time grant by way of reduced taxes of \$1,000 per employee position created during a two-year period as of June, 1987. This recently offered program had not yet been utilized.
- The sale of industrial land (developed by the City) at a reduced rate.
- Involvement in the Camrose Regional Business Development Centre developed through a Canada Manpower program. The City provided the land while the federal government constructed the building and pays for administrative staff for a five year period.

The City is also investigating subletting land currently leased from the province to a private company. Incentives are anticipated in the form of reduced rent and retention of tax exempt status of the land (the legality of this latter proposal is uncertain).

In addition to involvement with the above financial incentives, the Economic Development Coordinator is active in marketing the Camrose community to firms potentially in a position to locate there. His role is primarily that of providing information on the community: labour force, market area, nature of business activities, etc., and specifically commercial real estate opportunities. To this end, Camrose has a professionally prepared video on the community and its attributes. He also assists firms in finding locations by involvement in negotiations of lease space; assisting in permit applications and application for provincial grants; and negotiation of special tax concessions.

With the exception of the employment grant cited above, a number of firms have taken advantage of the financial incentives offered by the City of Camrose. The City is uncertain, however, to what extent these incentives have influenced the location of these businesses. As an example, one manufacturer will be locating in Camrose for reasons of transportation (access to economical truck transport and intersecting rail lines); stable labour force; and quality of life. The financial incentives have also been applied to a franchise retail establishment, whose viability is dependent primarily on the nature of the local market and not rental inducements.

The City of Camrose is the sole industrial land developer in the community and has indicated that one incentive is the provision of serviced land at reduced rates. While current selling prices are clearly below development costs it is quite likely that these prices do not reflect a financial concession per se but merely reflect low land prices in the province generally.

The Camrose Regional Business Development Centre which has been operating for approximately two years and is currently fully leased with a waiting list of respective businesses. One firm, a parts washing manufacturer, was very successful. It was bought out and relocated, but unfortunately in Edmonton.

Camrose views the financial concessions as affordable in that they believe the community more than benefits through future tax revenues and employment. It appears, however, that no formal cost-benefit analysis has been undertaken of the various financial incentives.

Overall, the City of Camrose believes that the primary result of their incentives programs is the promotion of a good business environment in the City.

3.3 GRANDE PRAIRIE

The City of Grande Prairie has studied the issue of financial incentives and has adopted a policy of not providing any. They do not consider themselves sufficiently financially healthy and furthermore, believe that any measures they could adopt would not be great enough to overcome their competitive disadvantages with larger centres elsewhere in Alberta.

The City's major involvement in economic development to date has been the funding of the Grande Prairie Economic Development Commission. The Commission is essentially a marketing agency for the Grande Prairie community and in some respects the surrounding area. Although their mandate includes providing stimulation for existing businesses, their efforts have been directed primarily towards new firms that have the potential to establish facilities in Grande Prairie. The Commission has initiated background research on the community and has produced a variety of documents containing economic and market information for distribution to potential firms.

Although the City is not involved in industrial land development, they are the largest land holder in the downtown area. At present, the market value of this land is substantially below the cost of acquisition. At this time the City is not prepared to sell the land at artificially low prices but, like many large land holders and developers in Alberta, will offer very competitive land prices.

The City is working towards removing any impediments to future development. They are reorganizing internally in hopes of streamlining the development approval process and are currently reviewing their offsite levy and developer charges. Some of these, such as parking stall charges, were added during the buoyant times and are now candidates for removal. In addition, the City is looking at providing the land, but not the improvements, for downtown parking in order that this area may remain competitive with suburban locations.

The only example cited of any direct financial incentive was in the case of leasing a city-owned building. The City reduced the rent for the first two years of the lease by an amount approximately equal to the cost of leasehold improvements provided by the tenant. This practice of lease inducement has been very common among private developers in Alberta and may not be appropriately categorized as a municipal subsidy.

In general, the existence or lack thereof of municipal financial incentives does not appear to have influenced the location of businesses within the City of Grande Prairie. General



research on business location in Alberta would indicate that the primary reasons for existing Grande Prairie businesses include:

- proximity to natural resources;
- transportation accessibility;
- existing location of entrepreneurs;
- the size of the community; and,
- the size and nature of the local labour force.

The natural resource based operations contacted suggested that matters of local taxation and incentives in that respect were generally not a factor in location of any of their operations. As an example, CANFOR (Canadian Forest Products Ltd.) investigated the feasibility of building a new facility in the rural area beyond the City of Grande Prairie but decided to rebuild their operations at their existing site within the City. Although municipal taxes were lower in the rural jurisdiction, the company indicated they were definitely not a factor in the decision. They estimate that such taxes comprise less than 1% of their total operating costs.

In contrast to local measures, financial assistance or incentives offered by higher levels of government do have a material effect on the location of new businesses. For the City of Grande Prairie the situation is particularly acute in that businesses, locating in the adjacent County of Grande Prairie, benefit from special income tax treatment. A number of businesses locating, or proposing to locate in the Grande Prairie area, opt for a facility in the County rather than in the City. In addition, several enterprises which have selected nearby Dawson Creek, B.C., have done so due to the presence of provincial incentives such as loan guarantees which are clearly unavailable across the border in Alberta.

3.4 SPRUCE GROVE

The City of Spruce Grove operates a well organized economic development program which consists primarily of information dissemination. Their activities include a number of initiatives aimed at assisting existing local businesses and encouraging new businesses to locate to the community.

The activities supporting existing businesses include:

- conducting cooperative ventures with the Chamber of Commerce, such as the development of a tourism plan;
- assisting businesses in accessing provincial and federal funds;
- working with the media in promoting local businesses;
- facilitating businesses in their dealings with City hall and outside agencies; and,
- establishing an *ambassadors* program whereby local business people who are travelling beyond the province are provided with a kit of information containing promotional material on the City.



Spruce Grove has adopted a targeted approach in its activities to encourage new businesses. In addition to general materials such as brochures and a video on the community, the City prepares a tailored prospectus for each potential business. This prospectus contains information particularly relevant to the company including site and facility-specific data. The City has also focused its efforts in marketing the community to potential businesses from the Orient, in particular Japan. This policy is particularly appropriate in view of the Japanese International Branch school which has recently commenced operation in Spruce Grove (the school will house and educate between 30 and 40 high school students each year who will come to Canada to study English and Canadian culture).

The City is considering other means within its jurisdiction to encourage local development. One potential activity is the commencement of an annexation petition in order to bring a greater supply of land with rail access and highway frontage into Spruce Grove. The City views rail access as central to further development of their industrial/commercial base.

Spruce Grove does not offer any direct financial or tax-related incentives. They have major concerns regarding their affordability and effectiveness and sincerely hope that the practice does not become adopted in Alberta. They would welcome provincial clarification eliminating such municipal tax concessions. If, however, they were to become common place, they would have to investigate employing them in order to remain competitive.

In addition to becoming actively involved with the business community, the City has further attempted to maintain a healthy business climate by not imposing a business tax. The City feels that these measures combined with their natural attributes are what are necessary for positive economic growth in the community.

3.5 STONY PLAIN

In Stony Plain economic development responsibility lies with the Town Manager. The Town's primary activities in this regard involve seeking out potential firms; assisting in respect of accessing grant funds from higher levels of government; and selling developed land at reduced prices. As in the case of other communities, this land pricing may not represent a financial concession by the municipality, but simply reflect current market values. The Town is essentially the sole industrial land developer in the community.

Stony Plain has adopted policies which exclude any modification or abatement of property taxes or any reduction on utility rates. These concessions, however, have been requested in a number of cases.

The Town's other approach to spurring local economic development is to increase its attractiveness for residential development by reducing the off-site levies and developer charges in previously signed development agreements. This in turn has resulted in lower, very competitive residential lot prices, and also improvements to the community's physical environment.

The sole major development to occur in recent years, the Andrew Wolf Winery, located in Stony Plain because of the provincial and federal grants available.

Stony Plain is not in a position financially or administratively to alter the fiscal costs to developers, such as tax breaks or reduced utility expense. The Town Manager sees impediments of a provincial nature, such as the perceived complexity of the current tax system, influencing development.

3.6 OTHER COMMUNITIES

Through the course of the research for this project, the topic of municipal financial incentives was discussed with jurisdictions over and above the four case studies.

The City of Wetaskiwin has adopted a policy of providing no tax exemptions or fiscal incentives because of their natural advantages of transportation accessibility and a strong local economy. Combined with a receptive attitude to business these factors have helped the City in attracting a number of developments. One example was mentioned by the City Manager, whereby a major company wanted tax concessions prior to proceeding but built the plant anyway in the absence of such incentives. Clearly, in such a case any financial concessions offered by the City would have been a direct cost to their taxpayers.

The Town of Sexsmith, located near Grande Prairie, has recently adopted a policy of providing tax rebates over a three-year term to new commercial and industrial developments. Their program, which will involve rebates on an annual basis, will incorporate a 75% reduction of the municipal portion of property taxes in year one, 50% in year two, and 25% in year three. Normal taxes would be payable for year four and beyond. The decision to provide such rebates will be made on an individual case basis. They currently have one application. Businesses already looking at the Grande Prairie area are the target of the Town's economic development activities. Sexsmith already enjoys low costs in respect of taxes, utilities, and land; and in addition does not impose a business tax.

Other communities are looking at the idea of providing tax abatements or similar financial incentives. However, there appears to be general concern as to their overall effectiveness and ultimate impacts upon municipalities.



3.7 SUMMARY

The information obtained through the discussion with the various municipalities essentially corroborates the earlier observations based on the experience elsewhere in general. Any existing local fiscal incentives do not appear to have had a material effect upon the location of businesses in various communities and this is not likely to change. For this reason, and the issue of general affordability, widespread adoption of local incentives would not appear to be warranted or desirable at the present time. The municipalities appear to be much more effective in encouraging economic development through marketing and promotional efforts which are based on the strengths of each community.

The effects of provincial and federal incentive programs on local development patterns should perhaps be investigated with an aim to eliminating any major distorting effects and coordinating these initiatives with local efforts. In particular, the existence of abrupt and arbitrary boundaries to the programs such as identified in the Grande Prairie and Stony Plain situations should be evaluated.

Although only a small number of communities were contacted during the course of this research, we anticipate that their opinions and experiences are likely typical of small and medium-sized Alberta communities in general. We suggest that it may be appropriate at this time to identify more comprehensively the current practices of more municipalities and involve a broad cross-section of municipalities in the process leading to a decision in respect of local financial incentives.

4. EVALUATION AND SUMMARY OF OBSERVATIONS

The following observations are based on the review of relevant planning and financial literature supplemented by discussions with individuals in various Canadian jurisdictions. These observations are occasionally interpreted in the Alberta context, assisted by the case studies of selected Alberta municipalities. It is worth noting that there is very little literature describing Canadian experiences with fiscal incentives and in general limited empirical data.

1. Municipal tax incentives appear to have little impact on commercial and industrial location decisions. A primary reason is that property and business taxes comprise a small portion of expenses. Furthermore, any reduction is only temporary (and possibly subject to political change) and hence the long term effect of reduced property taxes is relatively minor.
2. Most commercial and industrial concerns which have benefited from tax and other municipal financial incentives would likely have located or expanded in the absence of these incentives. In almost every locality that has been studied, tax incentives were applied universally to businesses meeting qualifying conditions such as geographic location and nature of expansion. In many states this universality was mandated by statute. Clearly, the municipalities employing these incentives have paid a substantial opportunity cost in the form of foregone revenue (resulting in a higher tax rate for the balance of its ratepayers) from those enterprises which would have made the investment and improvements anyway.
3. Property tax incentives may influence location decisions within a metropolitan area or region, to the extent that one municipality offers a tax advantage over another. However, the U.S. experience is that tax incentives have been adopted in clusters of localities thereby nullifying the competitive advantage to be gained from the incentives. If all municipalities in an area offer tax reductions, the potential advantage would be limited to the elimination of disparities in municipal tax levels. In areas where municipal tax rates are similar, this advantage would be negligible. The corollary of this observation is that if there are disparate tax rates, the jurisdiction(s) with the highest tax rates could then compete effectively. However, they also could likely ill afford the tax forgiveness.
4. Tax increment financing (TIF) may provide a financing mechanism for public improvements that would not otherwise be constructed. However, there is some concern as to the equity in directing tax revenue to only its specific area of generation.

In the U.S. context, TIF appears to cross-subsidize one locality by another or by a higher level of government. A municipality may be able to retain the incremental tax revenue collected on behalf of other authorities in the region (e.g. County, school district). This benefit is offset to the extent that other municipalities in the region utilize tax increment financing. This aspect of TIF is not applicable to Alberta because municipalities can not access tax revenues for other authorities.

5. The greatest use of property tax incentives has occurred in the north-eastern and mid-western parts of the U.S., primarily to encourage the location, expansion or retention of capital-intensive, manufacturing operations. These efforts have been undertaken to counteract intra-regional relocation to suburban localities and inter-regional relocation to the so-called sun-belt states of the south and south-west. Alberta communities, in particular smaller urban centres, are clearly in a different economic situation than those in the above regions.
6. Most major capital projects in Alberta are located for geographic reasons, such as proximity to natural resources, feedstocks, transportation infrastructure and the major population centres of Edmonton and Calgary. In respect of major industrial plants, it is unlikely that their location could have been influenced by local municipal tax policies. The same observation applies to the majority of commercial development in Edmonton and Calgary. Because of Alberta's relatively small population base, its concentration, and its distance from other population areas, the number of potential municipal locations for any major development is very small, and in most cases likely one. A study undertaken on site selection determinants in Alberta¹ confirms that municipal taxation was unimportant in the locational decision. Rather site suitability, availability, cost and transportation factors were among the primary determinants.
7. In many jurisdictions, incentives are provided only to new enterprises. This results in an inequitable treatment of existing businesses. In addition the majority of growth often comes from the expansion of existing firms. Other jurisdictions have recognized this and treat all businesses the same or in some cases provide greater incentives to expansion of present facilities. Even in these jurisdictions, however, the provision of inducements to new or expanding businesses which would still have located or expanded in the absence of incentives results in their subsidization by the remaining businesses and residents in the municipality.

1. "Industrial location and site selection determinants in selected communities of Alberta". Underwood McLellan Ltd., March, 1981.



8. The case studies and literature review lead one to conclude that tax abatements are questioned in terms of their cost-effectiveness. Incentive programs are perceived to be short-term in nature and may only serve to demonstrate a responsive attitude by the municipality towards business.
9. If school costs are forgiven and then subsidized by a higher level of government, then non-judicious use of tax abatement at the local level may inadvertently be encouraged. At any rate there may be an inequitable subsidization of local school costs by another level of government.
10. In Canada, some provinces - most notably Ontario - explicitly forbid the provision of financial incentives or bonuses to private concerns. In the provinces which do permit the waiving of taxes and other revenues, the employment of these measures does not appear to be widespread. Although British Columbia and Saskatchewan have recently adopted legislation enabling and encouraging the provision of such incentives for development, other provinces are aiming to reduce their use.
11. The recent experience in Saskatchewan and British Columbia with tax abatement programs corroborates a number of observations made above. Saskatchewan legislation enabled tax abatement in 1985. Regina has since adopted a policy waiving business and property taxes for up to two years for a small number of manufacturing firms. Clearly, the latter is a short-term incentive.

British Columbia has also recently adopted a program which allows municipalities to waive 50% to 100% of property taxes to 1990. By agreement the provincial government will pay the portion of school tax abated. The tax break is again for a relatively short period of time and in this case the Province subsidizes industry's share of school expense.

It should be noted that the tax concession program in B.C. goes hand in hand with an economic development program aimed at encouraging municipalities to get involved in local economic development activities. The impact of the fiscal incentive may not be as significant or as long term as the development of local economic development plans and marketing expertise.

12. Municipalities employ other measures with which to provide financial incentives.

Assistance provided to industrial incubators which offer space and services at below-market rates is a form of municipal incentive. In some jurisdictions (e.g. Ontario) a substantial portion of the assistance is provided by a higher level of government. The effectiveness of incubators, and in particular the benefit of any municipal subsidy, is largely unknown due to their relatively recent development.

and the difficulty in measuring outcomes. While over 90% of firms surveyed in a U.S. study¹ indicated that they would have started in the absence of the incubator, this facility may have positively influenced their overall success. The key question from a municipal perspective, however, is whether municipal subsidies are a necessary condition for those firms' operation.

In many small and medium-sized urban centres in Alberta and other jurisdictions (e.g. Ontario), the municipality is the major and often only supplier of serviced industrial land. In many of these cases, the municipality can essentially determine market value and hence can sell the land for less than its potential value and for less than total cost. Indirect costs such as carrying costs and administration are often not included in the accounting of land costs, thereby allowing for a subsidy while remaining within the letter of the law. This practice is utilized in Ontario, among other areas.

Some of these, such as provision of land, provide opportunities which may be at variance with the intent of provincial and state legislation.

1. "Creating Jobs by Creating New Business. Role of Business Incubators," National Council for Urban Economic Development, Nov. 1985, Table VII-I p. 51

APPENDIX

Annotated Bibliography - Fiscal Incentives for Development by Local Jurisdictions

American City and County, March, 1982 P. 69

Excerpts from Public-Private Partnership: An Opportunity for Urban Communities

The use of public incentives to stimulate private investment is advocated; however, the real value of local tax incentives is questioned. The author recommends minimal use of tax abatements by local governments. It is noted that there is little evidence to show that local tax incentives influence the relocation and expansion decision of firms.

It is suggested that where tax abatements are part of an incentive program they should be targeted to avoid short term windfall to firms. Reference is made to enterprise zones within which special tax incentive and waiving of certain regulations are employed.

American Planning Association, Planning Advisory Service, Report No. 389 Dec., 1984: *Tax Increment Financing*

This handbook provides a definition of tax increment financing or TIF as "a method of funding public investments in an area slated for redevelopment by recapturing, for time, all or a portion of the increased tax revenue that may result if the redevelopment stimulates private investment". The logistics of how TIF is implemented are discussed as well as the complexity of a number of taxing authorities.

Coffin, Donald A.: "Property Tax Abatement and Economic Development in Indianapolis", *Growth and Change, A Journal of Regional Development* Vol 13., No. 2., April 1 1982

The author discusses City of Indianapolis 1978 legislation allowing tax reductions in established redevelopment areas. He notes that there is no mechanism in the program itself for increase in long term growth of the jurisdiction; and questions that the program may alter the location of new construction rather than impact the level of new construction. Coffin suggests that very little evidence exists for taxes or tax incentives to alter inter-regional or inter-metropolitan location decisions.

He does conclude that the magnitude of the incentive would influence its degree of impact. Also, stability in the incentive structure over time should increase business certainty.

Casella, Samuel: "Can TIF Help Your Community", *Centre City Report* January, 1983

Mr. Casella provides a practical guideline to how to set up tax increment financing or TIF in a community.

He notes that the TIF concept is based on market potential of a district that will lead to increased assessment base. Generally state legislation is directed to a slum or "blighted" area or a redevelopment or enterprise district.

The author provides a "how to do it" list of eleven points which clearly outline the TIF implementation process.

City of Edmonton Planning Department: *Report on Tax Increment Financing*, June, 1984

This report outlines the steps, similar to those eleven noted by S. Casella, to implement tax increment financing. Benefits and risks of TIF are also listed.

Two examples in the City of Edmonton are cited where projects would be of the scale to use TIF. TIF could finance public parking facilities, street improvements, etc.

Discussed are the legislative amendments required. The report's appendix provides legislation from Wisconsin.

Conway Data Inc.: Industrial Development and Site Selection Handbook, Oct. 86.

Included is a discussion of incentive measures employed in the U.S., recent trends in this regard, and tables of their inevidence by state and by major centre.

Edmonton Downtown Development Corporation: *Downtown Development Projects in Canadian Cities*

The above is a table outlining the results of a survey sent to contact persons in several Canadian cities regarding specific projects (as selected by respondents). The survey included a question as to what public funding programs were utilized in its development. Many projects listed are public oriented, such as B.C. Place Stadium or redevelopment areas. Most are aimed at revitalizing the downtown cores.

"Funding" or financing assistance is in the form of:

- comprehensive development plans for CBD's;
- city built parking garage;
- landscaping, street furniture, development of a pedestrian/vehicular mall.

Gregerman, Alan S.: "Federal, State and Local Economic Development Initiatives". *Urban Land*, July, 1984

The author provides a good overview of industrial incubators. He describes the range of services that are provided to fledgling firms within a protective environment. "Public entrepreneurship" is discussed, whereby a public entity (for example, the Economic Development Corporation) acts as the risktaker in project development.

Gregerman feels that most cities would be "squeezed financially" by offering tax incentives. However, he notes alternative incentives such as:

- provision of infrastructure, construction and repair;
- improved public service delivery;
- concentrated use of economic development project dollars in "Enterprise Zones";
- streamlined zoning and development approval process.

Hellman, D.A. & Sifniotis, C.: "Distributional Considerations of Property Tax Exemption: An Analytical Framework", *Public Finance Quarterly* Vol. 5, No. 15, 1977.

The authors conclude that the largest share of costs are borne by residents of the exemption-granting community, while benefits flow mainly to non-residents (in a metropolitan context).

Hopkins, Linda M.: "Tax Incentives for Industrial Development" *Current Municipal Problems*, Vol. 12, No. 1, Summer 1985, P. 261-269

The author provides a general discussion. Although no empirical evidence is provided she does conclude that fiscal incentives may not be sufficient inducement for industry to locate in target areas.

Huddleston, Jack R. "Distribution of Development Costs Under Tax Increment Financing", *Journal of the American Planning Association*, Vol 52 #2, p. 194 Spring, 1986

Mr. Huddleston focuses on tax increment financing as a means of sharing the costs of local development projects among the taxing authorities that will benefit from an expansion in the local tax base.

(This situation is not as evident in Canada where taxing authorities are restricted to the local municipality and school board. In the U.S. there may be state tax, city tax, county tax, metro area tax, etc.)

Huddleston, Jack R. "Variations in Development Subsidies Under Tax Increment Financing", *Land Economics*, Vol. 57, No. 3, p. 373-384, August, 1981

The author discusses TIF in Wisconsin, highlighting the various taxing authorities and the resulting redistribution of costs and benefits because of the variation in development subsidies under TIF. The complication of school funding is also discussed.

Huddleston, Jack R. "Tax Increment Financing as a State Development Policy", *Growth and Change*, Vol 15 #2, 1984

Huddleston again examines tax increment financing in the State of Wisconsin. He finds it difficult to assess TIF's effectiveness as a state policy. His analysis shows that:

- TIF subsidies provide the greatest incentive to cities experiencing a population growth;
- TIF does little to preferentially aid large cities;
- TIF runs at cross purposes to state aid payments

Kitchen, Harry M.: *The Role for Local Government in Economic Development*, Discussion Paper Series, Ontario Economic Council, 1985

The author provides a good overview of a number of fiscal incentives including property tax relief, exemptions from property tax, grants and subsidies, and subsidized land costs. He puts forth several arguments against local municipalities undertaking tax abatements

- inequitable treatment of firms. Tax incentives usually directed at new business and large firms. Most growth in communities is from small firms and new growth is most often (70-80%) attributed to existing businesses
- tax exemptions threaten the concept of competitive enterprise
- locational decisions dependent on market demand and cost factors
- development incentives offered by provincial and federal governments are more likely to influence firms
- local tax incentives have a small or negligible impact

Urban Institute: *Directory of Incentives for Business Investment and Development in the United States, a State-by-State Guide*, 1983

The handbook provides a description of programs for every state with respect to: "direct financial incentives", "basic business taxes", and "tax exemptions, deductions, credits and special treatment".

Wolkoff, Michael J.: "The Nature of Property Tax Abatement Awards", *Journal of the American Planning Association*: Vol. 49 # 1, Winter, 1983 pp 77-84

Wolkoff provides an excellent discussion of tax abatements, their widespread use, impacts and effectiveness. He draws the following conclusions:

- it is logical to tie the size of the fiscal incentive to the value of the development to the community and to the investment price sensitivity of the firm. (He notes that this is rarely done because uniform application is simpler administratively and easy to justify politically.)
- he maintains that even simple rules should be able to distinguish between high payoff investments and those that need no encouragement.

- promotes warring between communities.
- may attract businesses that can not be supported.
- if all communities in the region employ tax incentives, merely results in foregone municipal revenue.

Kitchen concludes that inter-municipal competition would lead to a cost advantage for firms that would be matched by adjacent communities, thus the municipality would reap little benefit at considerable cost of the fiscal incentive.

Laux, F.A.: "Municipal Bonuses and Tax Exemptions to Entice Private Developments", *Alberta Law Review* XXV, 2, 1987 pp 224-248

"The author examines the history and case law of municipal councils granting bonuses and tax exemptions to private businesses in Alberta. He then considers the effect of the recent repeal of S. 443 of the Municipal Government Act. The author concludes that the rule prohibiting such aid to entice private businesses to establish, continue to expand enterprises in the community remains alive and well in Alberta." (p. 224).

The very interesting examples of the Calgary Stampeder Organization and the Eaton's Centre in Edmonton are examined in detail.

Morse, George W. & Farmer, Michael E.: "Location and Investment Effects of a Tax Abatement Program", *National Tax Journal*, Volume XXXIX, No. 2 pp 229-236.

The authors note the widespread use of tax abatements and enterprise zones even though all research would suggest their lack of impact on locational decisions. The findings of their investigation indicate that enterprise zones relying primarily on tax relief are likely to be ineffective development tools.

National Association of State Development Agencies (U.S.), "Directory of incentives for business investment and development in the United States", The Urban Institute, Washington, D.C., 1983.

National Council for Urban Economic Development (U.S.), "Creating Jobs by Creating New Businesses, the Role of Business Incubators", Washington, D.C., November 1985.

Schwanke, Dean: "Putting Tax Increment Financing to Work in Prince George's County", *Urban Land*, p 2-7, May, 1983

The author provides a brief historical background on tax increment financing and then deals in depth with the case of Prince George's County, Maryland. The latter is essentially a bedroom community. He notes the most difficult problem in setting up the TIF was administrative.

Schwanke goes on to outline in an effective manner the advantages and disadvantages in establishing a system of tax increment financing.

Underwood, Mclellan Ltd.: Industrial Location and Site Selection Determinants in Selected Communities in Alberta, 1981 (four volumes).

A survey of Alberta firms in various industrial sectors.

APPENDICES & BIBLIOGRAPHY

**MUNICIPAL DEVELOPMENT INCENTIVES
FOR PRIVATE DEVELOPERS:**

- (i) A Review and Evaluation of Land Use Incentives

Prepared by:

Research & Development Branch
Planning Services Division
Alberta Municipal Affairs

October 1987

APPENDICES

- A. Land Use Incentives Offered by Municipalities to Developers
- B. Amenities Sought by Municipalities in Exchange for Development Incentives, by Objective of Amenity
- C. Transferred Density Bonuses: Objectives
- D. On-Site Density Bonuses: Strengths Identified by Practitioners and Commentators
- E. On-Site Density Bonuses: Weaknesses Identified by Practitioners and Commentators
- F. Transferred Density Bonuses: Strengths Identified by Practitioners and Commentators
- G. Transferred Density Bonuses: Weaknesses Identified by Practitioners and Commentators
- H. Relaxation of Lot Regulations in Zoning Bylaws: Strengths
- I. Desirable Elements of an On-site Density Bonus Policy
- J. Desirable Elements of a Transferred Density Bonus Policy

APPENDIX A
LAND USE INCENTIVES OFFERED BY MUNICIPALITIES TO DEVELOPERS

MUNICIPALITY	SOURCE	PAGES	COMMENTS
** ON-SITE DENSITY BONUSES			
* Additional floor area [No user named in source]	Meshenberg, 1976A	45	
* Addition to floor area ratio [No user named in source]	Weaver and Babcock, 1979	57-8	
[No user named in source]	Alexander, 1982	42	
[No user named in source]	Nader, 1975	277	
[No user named in source]	Goodman and Freund, 1968	430-1	
[No user named in source]	Rose, 1974	136	
* Increment in developable floor space Anchorage	Alexander, 1982	40	The provision of amenities generates bonus points.
* Addition to maximum floor space index Ottawa	City of Ottawa, 1985	6	In part of the city, a higher floor space index was permitted for residential use than for commercial use.
* Exclusion of floor area used for designated purposes from the calculation of floor space index North York	City of North York, 1986	11-12	The floor area occupied by social and cultural facilities, grade-level shopping facilities and underground concourses is deducted from a building's gross floor area prior to the calculation of floor space index.
* Exclusion of at-grade and second floor retail space from the calculation of floor area ratio Regina	City of Regina, 1986	Pers. comm.	

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MUNICIPALITY	SOURCE	PAGES	COMMENTS
* Exclusion of residential floor space from the calculation of floor area ratio Regina	City of Regina, 1986 Pers. comm.		
* Addition to gross rentable area Kitchener	City of Kitchener, 1971	n.p.	Offered in a multiple family residential area adjacent to the CBD. Zoning Bylaw, s.19B.12.
* Exclusion of interior open space from the calculation of floor area ratio Regina	City of Regina, 1986 Pers. comm.		
* Additional building height (feet, stories) [No user named in source]	Alexander, 1982	42	
[No user named in source]	Goodman and Freund, 1968	430-1	
* Extra residential density [No user named in source]	Alexander, 1982	42	
* Addition to floor area ratio Seattle	Zoning News, 1985	3	Available for construction, rehabilitation or financial support of affordable housing.
* Percentage increase in maximum permitted floor area New York City	Urban Land Institute, 1980	158-9	Awarded for provision of improved pedestrian circulation (arcades, bridges), greater public open space (covered pedestrian spaces), better shopping facilities (arcades) and residential units (mixed commercial and residential developments) in parts of central and lower Manhattan.
* Higher residential density State of California	Schiffman, 1983	31-2	If 75% of the units included in a development proposal are

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MUNICIPALITY	SOURCE	PAGES	COMMENTS
			intended for low and moderate income people, the developer may increase the total number of units by 25%.
* Higher level of maximum floor area ratio Calgary	City of Calgary, 1984	142.7	Land Use Bylaw, s. 42.3(5)(a)(i).
* Percentage increase in gross floor area Toronto	City of Toronto, n.d.	48	Official Plan, s. 3A.1(d)(e).
* Addition to maximum floor space index North York	City of North York, 1986	2-6	
* Extra residential density Toronto	City of Toronto, n.d.	48	
* Additional commercial density Toronto	Freedman, 1986	C5	
* Approval of construction of additional housing units New Castle, Delaware	Meshenberg, 1976A	45	For every subsidized dwelling unit provided, a conventional unsubsidized unit can be constructed.
* Approval of mixed use districts [No user named in source]	Alexander, 1982	42	
* Additional density permitted if more than one use incorporated Edmonton	City of Edmonton, 1980	k79, k88, k92	Land Use Bylaw, s. 820a. Allows a developer of a non-residential use in the downtown Commercial Mixed Use district to increase the floor area of the non-residential use if residential uses are included.

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MUNICIPALITY	SOURCE	PAGES	COMMENTS
• Additional commercial area permitted if an elective residential component provided Vancouver	City of Vancouver, 1985	Appx 1, p. 8	
• Additional density permitted if more than one use incorporated in a development Toronto	McKellar, 1979	22-3	The "as of right" density in a mixed use district in Toronto refers to a single category of use only.
• Additional residential density permitted if the additional amount is devoted to Assisted Housing Toronto	City of Toronto, n.d.	48	Up to 25% over the permitted residential density may be granted in Low Density, Mixed Commercial-Residential Areas. Official Plan, 3A.1(d).
• Approval of a greater-than-normal number of residential units per unit area San Francisco	McKellar, 1979	22-3	Granted if senior citizen units are built.
Toronto	City of Toronto, n.d.	48	May be granted in Low Density, Mixed Commercial-Residential Areas if a residential building contains special housing. Official Plan 3A.1(e).
Kingston	City of Kingston, n.d.	4-5	A proposal. May be granted in exchange for the construction of assisted housing, the dedication of land as public parkland or the provision of land for a road allowance. Authorization given in a zoning bylaw amendment implementing bonus zoning.
• Approval of clustered development and massing of site density [No user named in source]	Schiffman, 1983	24-6, 31	The development rights attached to undevelopable land are not lost, but allowed to be transferred within the site. Cluster development also contributes to economies of scale and a reduction of infrastructure costs.
• Approval of planned unit developments [No user named in source]	Babcock, 1979	435	Benefits to developer: can construct more dwelling units than permitted in zoning regulations and include retail units in residential developments; does not have to observe standard yard requirements. Benefits to municipality: obtains better-designed projects and more open space.

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MUNICIPALITY	SOURCE	PAGES	COMMENTS
** TRANSFERRED DENSITY BONUSES			
* Transfer of unused density within the site from dedicated land to the remaining land			
Calgary	City of Calgary, 1984	142-18	Land Use Bylaw, s. 42.3. Is offered in the cases of heritage buildings and where sunlight on public spaces is to be protected. According to the Land Use Bylaw, s. 17(4), is also offered when land is given to the City for street purposes.
* Transfer of a portion of the permitted density on a heritage building site to another site			
Edmonton	City of Edmonton, 1981	4, 68-70	Twice the unused or twice the existing floor area may be transferred, subject to the maximum floor area of the donating and receiving sites not exceeding 125% of the combined floor areas prior to redistricting.
* Transfer of development rights (No user named in source)	Urban Land Institute, 1980	63	
New York City	Urban Land Institute, 1980	157	Owners of historic properties may be paid a sum equal to their equity and the mortgaging bank given the development rights attached to the property.
(No user named in source)	Babcock, 1979	437	The mechanism is "...not widely adopted".
(No user named in source)	Ontario Ministry of Housing, 1979	95-6	The White Paper s. 10.63 comments that there are few applications in practice and that the results have often been less than successful.
New York City	Moseley, 1986	15	The mechanism is used to protect historic landmarks (listed buildings).
* Transfer of the density entitlement associated with land dedicated for highway use	City of Vernon, 1986	Pers. comm.	
* Transfer of development rights			
Vancouver	Berridge, Lewinberg Associates, 1986	2-5	The objectives are heritage preservation, provision of open space and parks, development of mixed uses and improvement of urban design. Only three IDP-related rezonings have occurred. Only

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MUNICIPALITY	SOURCE	PAGES	COMMENTS
[No user named in source]	Ontario Planning Act Review Committee, 1977	99-100	unused density may be transferred; no bonus density is available (City of Vancouver, 1984, 1).
* Transfer of air rights [No user named in source]	Urban Land, 1986	40	S.11.29. TDR is a "relatively untested practice".
* Transfer of density to another site North York	Sewell, 1986	A8	Appears virtually identical to transfer of development rights.
* Transfer of development rights between parcels Southampton, N.Y.	Smith, 1979	152	
Southeast, N.Y.	Smith, 1979	152	
St. George, Vt.	Smith, 1979	152	
South Brunswick, N.J.	Smith, 1979	152	
Hillsborough, N.J.	Smith, 1979	152	
Chesterfield, N.J.	Smith, 1979	152	

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MUNICIPALITY	SOURCE	PAGES	COMMENTS
** DENSITY BONUSES DUE TO RELAXATION OF ZONING REGULATIONS			
* Reduction in yard area requirements [No user named in source]	Alexander, 1982	42	
* Approval of above-normal lot coverage (and hence a reduction in open space requirements) [No user named in source]	Alexander, 1982	42	
* Reduction in minimum lot size requirement [No user named in source]	Goodman and Freund, 1968	431	Granted in return for the preservation of otherwise developable land as open space, under a cluster zoning arrangement.
* Reduced landscaped area requirements if balconies and rooftop recreation areas provided Kitchener	City of Kitchener, 1971	n.p.	Available in certain areas to developers of multiple family residential projects. Zoning bylaw, s. 198.9.4.
* Flexibility in height and setback regulations New York	Urban Land Institute, 1980	159	The regulations can be varied in Manhattan if a developer provides covered pedestrian spaces and arcades through blocks.
* Relaxation of loading space requirements Calgary	City of Calgary, 1986	Pers. comm.	Granted for Eaton Centre development.
* Relaxation of parking requirements [No user named in source]	Alexander, 1982	42	
[No user named in source]	Meshenberg, 1976A	45	Has occurred in Baltimore when housing was provided for low income groups or the aged.
Toronto	McKellar, 1979	22-3	Relaxed in exchange for provision of senior citizen housing.
San Francisco	City of Vancouver, 1985	Appx 1, p. 2	Smaller units are permitted and less parking required when low-cost units are provided.

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MUNICIPALITY	SOURCE	PAGES	COMMENTS
Edmonton	Homik, 1985	153	Relaxed to encourage preservation of heritage buildings.
Vernon	City of Vernon, 1986	Pers. comm.	A density bonus is available when underground parking is provided for Multiple Family Residences.
Calgary	City of Calgary, 1986	Pers. comm.	Granted for Eaton Centre development.
* Relaxation of loading space requirements Edmonton	City of Edmonton, 1985	3	S.16.2.2.4.
* Relaxation of parking requirements Edmonton	City of Edmonton, 1985	3	S.16.2.2.4. Relaxed to encourage preservation of heritage buildings.

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MUNICIPALITY	SOURCE	PAGES	COMMENTS
** ON-SITE DENSITY BONUSES: SALE/LEASE OF ON-SITE AIR RIGHTS			
* Sale/lease of an existing site's air rights to achieve mixed use development of the site			
New York City	Urban Land, 1986	40	Usually occurs on a site occupied by transportation facilities, public buildings or public land.
Boston	Urban Land, 1986	40	Usually occurs on a site occupied by transportation facilities, public buildings or public land.
Washington	Urban Land, 1986	40	Usually occurs on a site occupied by transportation facilities, public buildings or public land.
Chicago	Urban Land, 1986	40	Usually occurs on a site occupied by transportation facilities, public buildings or public land.

APPENDIX B
AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
** GENERAL OBJECTIVE: BUILDING PRESERVATION				
* SPECIFIC OBJECTIVE: Preservation of buildings for residential purposes				
Continued use of existing structures for residential purposes	Vancouver	McKellar, 1979	23-4	Commercial use is allowed in existing residential buildings in one zoning district if the buildings are preserved. In another district, the maximum Floor Area Ratio is increased to facilitate additions and infill when existing houses are converted to multiple-unit accommodation.
Preservation of low-income housing in downtown	Seattle	City of Vancouver, 1985	Appx. 1, p.4	Transfer of development rights available as an incentive. Also, in a mixed use area, the commercial development rights attached to a particular site may be transferred to an adjacent site if the first site is used for housing purposes.
* SPECIFIC OBJECTIVE: Preservation of heritage buildings and landmarks				
Heritage buildings	Calgary	City of Calgary, 1984	142.5	Land Use Bylaw, s. 42.3(1)(c).
Heritage buildings	Dallas	Berridge, Lewinberg Associates, 1986	18-9	Application of transfer of development rights.
Heritage buildings	Edmonton	City of Edmonton, 1981	4, 68-70	Twice the unused or twice the existing floor area of the heritage building site may be transferred, subject to the maximum floor area of both sites being set at 125% of the combined floor area prior to restricting. Other possible incentives: varying of parking requirements, amenity area requirements and loading area requirements if a pre-1940 building is being renovated; further reduction in parking requirements if the building is "listed"; and a further 5% addition in floor area if the building was erected pre-1940. In some mixed use areas, the commercial floor space in a development

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AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
Heritage buildings	New York City	Moseley, 1986	15	can be increased if a listed building is retained.
Heritage buildings	New York City	Berridge, Lewinberg Associates, 1986	6-12	Application of transfer of development rights.
Heritage buildings	North York	City of North York, 1986	11	Relates particularly to theatres.
Heritage buildings	Ontario	Ontario Ministry of Municipal Affairs and Housing, 1983	6	Ontario Ministry of Municipal Affairs and Housing guideline.
Heritage buildings	San Francisco	Berridge, Lewinberg Associates, 1986	13-7	Application of transfer of development rights.
Heritage buildings	Toronto	Freedman, 1986	C5	Includes the integration of small historic buildings into large new buildings.
Heritage buildings	Vancouver	City of Vancouver, 1984	1	According to source, transfer of density can be used in connection with the preservation of historic buildings and sites.
Incorporation of historic buildings into new developments	Alvinston, Ont.	Village of Alvinston, n.d.	63	
* SPECIFIC OBJECTIVE: Retention of places of worship Church or cathedral	North York	City of North York, 1986	11	
Church or cathedral	Toronto	The Globe and Mail, 1983B	B2	Application of transfer of development rights.
Church or cathedral	Vancouver	Shortell, 1980	16	Application of transfer of development rights.

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AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
** GENERAL OBJECTIVE: BUILT FORM AND SITE PLANNING				
* SPECIFIC OBJECTIVE: Achievement of basic downtown development design standards	Achievement of basic downtown development design standards	City of North York, 1986	2	
		North York		
* SPECIFIC OBJECTIVE: Development of air space over streets in an area of several blocks	More intensive use of downtown land	[No user named in source]	46	
		Alexander, 1982		
* SPECIFIC OBJECTIVE: Incorporation of desired design features in new developments	Aesthetics	City of London, 1985	1	
		London, Ont.		
Arcades	New York City	Patterson, 1979	67-8	
		San Diego		
Arcades	San Francisco	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
		Rose, 1974	137	
Arcades	[No user named in source]	Goodman and Freund, 1968	430-1	
		Alexander, 1982	41-2	According to source, the City of Pomona (Ca) found this to be a frequently-sought amenity.
Architectural aesthetics	Edmonton	City of Edmonton, 1986	Pers. comm.	
		North York	5	
Architectural aesthetics	Vancouver	City of North York, 1986	1	This amenity is intended to be achieved through transfer of density.
		City of Vancouver, 1984	40	
Improved urban design	Anchorage	Alexander, 1982		
Inclusion of retail uses				

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AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
at ground level				
Inclusion of retail uses at ground level	Regina	City of Regina, 1986	Pers. comm.	FAR calculations exclude retail space at grade and at the second level.
Inclusion of retail uses at ground level	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Mitigation or avoidance of wind tunnel effects	North York	City of North York, 1986	5	
Mitigation or avoidance of wind tunnel effects	[No user named in source]	Nader, 1975	276-7	
Multiple entrances to buildings	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Multiple entrances to buildings	San Francisco	Rose, 1974	137	
Observation decks	San Francisco	Patterson, 1979	67-8	
Observation decks and roof gardens	Anchorage	Alexander, 1982	40	
Observation decks and roof gardens	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Observation decks and roof gardens	San Francisco	Rose, 1974	139	
Prevention of shadow effects	North York	City of North York, 1986	5	
Protection and enhancement of views	San Francisco	Rose, 1974	136	
Protection and enhancement of views	[No user named in source]	Alexander, 1982	41-2	According to source, the City of Pomona (Ca) found this to be a frequently-sought amenity.

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AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
Reduced site coverage on upper floors	San Francisco	Rose, 1974	138	
Respect for adjacent buildings' and public spaces' access to sunlight	San Francisco	Rose, 1974	136-8	According to source, the amenity is obtained by increasing the side setback to over 20' and by having low coverage on upper floors. The letter refers to progressively increased setbacks at upper levels (Goodman and Freund, 1968, 430-2).
Retention of axial views	[No user named in source]	Ontario Planning Act Review Committee, 1977	99-100	
Use of cluster development designs	[No user named in source]	Meshenberg, 1976A	43	
Walkway connections to adjacent buildings	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
* SPECIFIC OBJECTIVE: Private provision of parking space				
Access to a parking structure	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Access to a parking structure	San Francisco	Rose, 1974	136	
Access to a parking structure	[No user named in source]	Alexander, 1982	41-2	According to source, the City of Panama (Ca) found this to be a frequently-sought amenity.
Off-street parking	Boston	U.S. Dept. of Housing and Urban Development, 1977A	26	
Parking space in, under or attached to multi-family residential	Calgary	City of Calgary, 1986	Pers. comm.	Bonuses are available for the provision of this amenity in RM7 and Commercial districts.

APPENDIX B
AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
buildings and/or commercial buildings				
Parking space in, under or attached to multi-family residential buildings and/or commercial buildings	North York	City of North York, 1986	5, 8	
Parking space in, under or attached to multi-family residential buildings and/or commercial buildings	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Provision of parking facilities	Ottawa	City of Ottawa, 1985	6	The exchange of this amenity for additional density has been administered on an ad hoc basis.
Underground parking	London, Ont.	City of London, 1985	1	
Underground parking	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Underground parking for apartment-dwellers	Vancouver	McKeller, 1979	23-5	
Underground parking for townhouse residents	Edmonton	City of Edmonton, 1986	Pers. comm.	

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AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
** GENERAL OBJECTIVE: CULTURAL				
* SPECIFIC OBJECTIVE: Performance of archaeological survey Performance of archaeological survey	Performance of archaeological survey Alvinston, Ont.	Village of Alvinston, n.d.	63	
* SPECIFIC OBJECTIVE: Private provision of cultural exhibits and recreational facilities				
Incorporation of live theatres in new buildings	New York City	Patterson, 1979	67-8	
Sculptures and art works in public places	Calgary	City of Calgary, 1984	142.8	Land Use Bylaw, s. 42.3(5).
Sculptures and art works in public places	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
* SPECIFIC OBJECTIVE: Private provision of space for cultural and recreational facilities				
Art gallery	North York	City of North York, 1986	11	
Art gallery	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Art gallery	Vancouver	Bancroft-Jones et al., 1986	3-4	
Auditorium	Calgary	City of Calgary, 1984	142.7	Land Use Bylaw, s. 42.3(5)(a)(ii)(c).
Cinema	Calgary	City of Calgary, 1984	142.7	Land Use Bylaw, s. 42.3(5)(a)(ii)(c).
Concert hall	North York	City of North York, 1986	11	
Cultural heritage centre	North York	City of North York, 1985	11	

APPENDIX B
AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
Library	[No user named in source]	U.S. Dept. of Housing and Urban Development, 1977B	13	
Live theatre	Anchorage	Alexander, 1982	40	
Live theatre	Calgary	City of Calgary, 1984	142.7	Land Use Bylaw, s. 42.3(5)(a)(ii)(c).
Live theatre	New York City	U.S. Dept. of Housing and Urban Development, 1977A	20	
Live theatre	North York	City of North York, 1986	11	
Live theatre	Vancouver	Bancroft-Jones et al., 1986	3-4	
Museum	North York	City of North York, 1986	11	
Museum	Vancouver	Bancroft-Jones et al., 1986	3-4	
Recreational centre	North York	City of North York, 1986	11	
Recreational facilities	Alvinston, Ont.	Village of Alvinston, n.d.	63	
Recreational facilities	London, Ont.	City of London, 1985	1	

APPENDIX B
AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
** GENERAL OBJECTIVE: LAND USE PLANNING				
* SPECIFIC OBJECTIVE: Comprehensive planning and development Planned unit development	San Francisco	McKellar, 1979	23	All regulations are relaxed if a Planned Unit Development proposal for an undeveloped site of over 0.5 acres has merit.
* SPECIFIC OBJECTIVE: Consolidation of lots Physically and economically developable sites	New York City	Berridge, Levinberg Associates, 1986	6-12	Accomplished through transfer of development rights.
Physically and economically developable sites	New York City	Heaver and Babcock, 1979	290	
* SPECIFIC OBJECTIVE: Development of air space over existing buildings, lands and facilities Greater vertical development on present low density sites	Boston	Urban Land, 1986	40	
Greater vertical development on present low density sites	Chicago	Urban Land, 1986	40	
Greater vertical development on present low density sites	Hartford, Conn.	Urban Land Institute, 1980	157	Aetna Insurance Co. offices were built over the Convention Centre.
Greater vertical development on present low density sites	New York City	Urban Land, 1986	40	
Greater vertical development on present low density sites	Washington	Urban Land, 1986	40	

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AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
* SPECIFIC OBJECTIVE: Development of mixed use residential-commercial projects Mixed use of a downtown site	North York	City of North York, 1986	2	
Mixed use of a downtown site	Toronto	McKellar, 1979	22	Density incentives are provided for construction of housing in a Mixed Use zone, in which the "as of right" use is either commercial OR residential.
* SPECIFIC OBJECTIVE: Development of mobile home parks Mobile home parks	Simi Valley, Ca. (City)	Schiffman, 1983	33	
* SPECIFIC OBJECTIVE: Encouragement of high residential densities at the periphery of the C.B.D. Residential accommodation in the inner city	Kitchener	City of Kitchener, 1971	n.p.	Zoning Bylaw, s. 19B.12.
* SPECIFIC OBJECTIVE: Encouragement to the development of hotel and residential uses Provision of accommodation in the downtown area	New York City	Weaver and Babcock, 1979	127-8	
* SPECIFIC OBJECTIVE: Supply of developed amenity land Parks	(No user named in source)	Neder, 1975	277	
Supply of usable open space and landscaped area	Vernon	City of Vernon, 1986	Pers. comm.	An incentive is offered to encourage underground parking for low-rise apartment blocks.
* SPECIFIC OBJECTIVE: Supply of land for public purposes Dedication of land for a new road allowance	Kingston	City of Kingston, n.d.	7	
Dedication of parkland in	Kingston	City of Kingston,	7	

APPENDIX B
AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
excess of requirements		n.d.		
Land for park use	North York	City of North York, 1986	10	
Land for use in road-widening	North York	City of North York, 1986	10	

APPENDIX B
AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
** GENERAL OBJECTIVE: OPEN SPACE				
* SPECIFIC OBJECTIVE: Landscaping				
Landscaping	[No user named in source]	Alexander, 1982	41-2	According to source, the City of Pomona (Ca) found this to be a frequently-sought amenity.
* SPECIFIC OBJECTIVE: Preservation of rural areas in agricultural, open space and natural uses				
Preservation of farmland	Montgomery Co, Maryland	Pizor, 1986	203-11	Achieved through the transfer of development rights.
Preservation of farmland, woodland and wetlands	Pinelands region, New Jersey	Pizor, 1986	203-11	Achieved through the transfer of development rights.
Preservation of the open space associated with cluster developments for the use of the locality	[No user named in source]	Schiffman, 1983	25	
* SPECIFIC OBJECTIVE: Private provision of open space, landscaped areas and public amenities				
Additional open space	Vancouver	City of Vancouver, 1984	1	
Additional open space	[No user named in source]	Alexander, 1982	41	According to source, the City of Pomona (Ca) found this to be a frequently-sought amenity.
Covered pedestrian spaces	New York City	Weaver and Babcock, 1979	127	This amenity is sought in the Fifth Avenue Special District.
Indoor parks	Calgary	City of Calgary, 1984	142-12	Land Use Bylaw, s. 42.3(5).
Open space	London, Ont.	City of London, 1985	1	
Open space at grade in	Winnipeg	City of Winnipeg,	Pers.	

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DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
residential developments				
Open space at or above grade	Calgary	1986 City of Calgary, 1984	comm. 142.8 - 142.12	Land Use Bylaw, s. 42.3(5).
Parks	Kingston	City of Kingston, n.d.	7	Proposed: dedication of parkland in excess of requirements.
Parks	New York City	Moseley, 1986	18	
Parks	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Parks	[No user named in source]	Ontario Ministry of Municipal Affairs and Housing, 1983	6	Suggested as an objective for municipalities when using bonus provisions.
Preservation of private open space	[No user named in source]	Ontario Planning Act Review Committee, 1977	99-100	Section 11.29.
Rooftop gardens in residential developments	Winnipeg	City of Winnipeg, 1986	Pers. comm.	
Street furniture	Anchorage	Alexander, 1982	40	
Street furniture	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Trees along streets	Anchorage	Alexander, 1982	40	
Urban plazas	Anchorage	Alexander, 1982	40	
Urban plazas	Calgary	City of Calgary, 1984	142.10	Land Use Bylaw, s. 42.3(5).
Urban plazas	New York City	Moseley, 1986	18	
Urban plazas	New York City	Patterson, 1979	67-8	
Urban plazas	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present

APPENDIX B
AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
Urban plazas	San Francisco	Rose, 1974	138	status unknown.
Urban plazas	[No user named in source]	Goodman and Freund, 1968	430-1	
Urban plazas (interior)	New York City	Weaver and Babcock, 1979	127	This amenity is sought in the Fifth Avenue Special District.
Widened sidewalks	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Widened sidewalks	San Francisco	Rose, 1974	137	
* SPECIFIC OBJECTIVE: Protection of environmentally sensitive land				
Protection of environmentally sensitive land	[No user named in source]	Mesherberg, 1976B	20	
Retention of undevelopable land in natural state	[No user named in source]	Schiffman, 1983	24	
* SPECIFIC OBJECTIVE: Supply of usable open space and landscaped areas				
Planned unit developments	[No user named in source]	Schiffman, 1983	31	According to source, this objective can be achieved through the approval of planned unit developments.
Supply of usable open space and landscaped areas	Vernon	City of Vernon, 1986	Pers. comm.	This objective is achieved by offering density bonuses for the provision of underground parking.

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AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
** GENERAL OBJECTIVE: SOCIAL AND COMMUNITY				
* SPECIFIC OBJECTIVE: Encouragement of income mixing/integration Integration of different income groups in a residential development	Ottawa	City of Ottawa, 1985	3	According to source, some cities have striven for this objective as the inclusion of low-income accommodation in private rental projects avoids the stigma and neighbourhood resistance associated with public housing projects.
* SPECIFIC OBJECTIVE: Private provision of space for social services and community facilities				
Auditorium	Calgary	City of Calgary, 1984	142.7	Land Use Bylaw, s.42.3(5)(a)(i)(c).
Auditorium	North York	City of North York, 1986	11	
Community centre	North York	City of North York, 1986	11	
Community centre	[No user named in source]	Ontario Ministry of Municipal Affairs and Housing, 1983	6	
Legal aid office	Vancouver	Bancroft-Jones et al., 1986	3-4	
Nursery and day-care centre	Alvinston, Ont.	Village of Alvinston, n.d.	64	A day-care centre is seen as a magnet for drawing young families into the community.
Nursery and day-care centre	Toronto	Steed, 1986	B1	The developer of Waterpark Place, an office development, constructed and maintains a day-care centre. The operator is not charged rent.
Nursery and day-care centre	Vancouver	Bancroft-Jones et al., 1986	3-4	

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AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
• SPECIFIC OBJECTIVE: Provision of housing Medium density residential development	Vancouver	McKellar, 1979	22	Additions to Floor Area Ratio are available in the RM 3A Multiple Dwelling District.
• SPECIFIC OBJECTIVE: Provision of housing for selected groups Housing for low-income individuals and families	Arlington County, Va.	Meshenberg, 1976A	45	
Housing for low-income individuals and families	Baltimore	Meshenberg, 1976A	45	
Housing for low-income individuals and families	Bellingham, Mass.	Meshenberg, 1976A	45	
Housing for low-income individuals and families	Municipalities in California	Schiffman, 1983	31-2	Under a State provision, a 25% bonus is available if 25% of the units in a development are reserved for low and moderate income individuals.
Housing for low-income individuals and families	New Castle, Delaware	Meshenberg, 1976A	45	
Housing for low-income individuals and families	San Francisco	City of Vancouver, 1985	Appx. I, p.2	All developers are required to provide a certain number of housing units. More housing credits are awarded for providing low-income accommodation than for moderate income accommodation, reducing the number of units that must be provided.
Housing for low-income individuals and families	Seattle	City of Vancouver, 1985	Appx. I, p.4	A developer is permitted to construct low- and moderate- income housing offsite from the major development or make a payment in lieu of construction. Transfer of development rights is also available to encourage preservation of low-income housing in the downtown.
Housing for low-income individuals and families	Toronto	McKellar, 1979	22-3	The City seeks to have assisted housing provided.

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AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
Housing for low-income individuals and families	Vancouver	City of Vancouver, 1985	Appx. 1, p.8	Additional density is awarded for low-income housing in certain zones. Additional units per acre are awarded if 2-3 bedroom rental units are provided. Additional commercial density is available if residential units are provided.
Housing for low-income individuals and families	[No user named in source]	Alexander, 1982	45-6	According to source, the City of Pomona (Ca) found this to be a frequently-sought amenity.
Housing for the elderly	Oakland	Schiffman, 1983	33	
Housing for the elderly	San Francisco	McKellar, 1979	22-3	The permissible number of units per lot is increased if senior citizen units are built.
Housing for the elderly	Saratoga, Ca.	Schiffman, 1983	33	
Housing for the elderly	Toronto	McKellar, 1979	22-3	The incentives offered are 1) a higher approved density per acre than for standard housing and 1) reduced parking requirements.
Housing for the elderly	Vancouver	City of Ottawa, 1985	3-4	An addition to the Floor Area Ratio is permitted if 20% or more of the units in a development are allocated for seniors and low income households. However, according to a report by the city manager for Vancouver, no developers have taken advantage of this incentive (City of Vancouver, 1985, 5).
Housing for the elderly	[No user named in source]	Alexander, 1982	41-2	According to source, the City of Pomona (Ca) found this to be a frequently-sought amenity.
Housing for the handicapped	Alvinston, Ont.	Village of Alvinston, n.d.	63	Incentives for group homes have been suggested.
Housing for the	Kingston	City of Kingston,	7	A proposal.

APPENDIX B
AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AGENCY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
handicapped		n.d.		
Special or assisted housing	Kingston	City of Kingston, n.d.	7	A proposal.
Special or assisted housing	Toronto	Urban Land Institute, 1985	50-3	In the Bay Charles Towers development, a number of "assisted units" (subsidized by the City) are interspersed among other apartments.
Special or assisted housing	Toronto	City of Vancouver, 1985	Appx. 1, p. 5	The site of an office development may be upzoned if sites or money are provided for assisted housing. A 25% bonus is also available in respect of assisted housing.
Special or assisted housing	Toronto	City of Toronto, n.d.	48	
Special or assisted housing	[No user named in source]	Ontario Ministry of Municipal Affairs and Housing, 1983	6	
Units for families in high-density residential areas	London, Ont.	City of London, 1985	1	

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DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
** GENERAL OBJECTIVE: TRANSPORTATION AND PEDESTRIAN MOVEMENT				
* SPECIFIC OBJECTIVE: Beach access Public access to beaches	[No user named in source]	U.S. Dept. of Housing and Urban Development, 1977B	13	
* SPECIFIC OBJECTIVE: Provision and improvement of access to downtown buildings by all forms of transportation				
Multiple entrances to buildings	San Francisco	Rose, 1974	136	
* SPECIFIC OBJECTIVE: Provision of access to parking facilities or public transit services				
Access to parking	[No user named in source]	Alexander, 1982	41	According to source, the City of Panama (Ca) found this to be a frequently-sought amenity.
Entrances to subway stations	New York City	Moseley, 1986	18	
Entrances to subway stations	New York City	Patterson, 1979	67-8	
Entrances to subway stations	San Diego	Alexander, 1982	45-6	A proposal, according to the source. Present status unknown.
Entrances to subway stations	San Francisco	Rose, 1974	136	
Improved pedestrian movement a) into and out of buildings, b) along streets and c) between streets	San Francisco	Rose, 1974	136	
Proximity of building to a rapid transit station	Calgary	City of Calgary, 1986	Pers. comm.	High density is encouraged around light rapid transit stations. This policy is not confined to downtown stations.

APPENDIX B
AMENITIES SOUGHT BY MUNICIPALITIES IN EXCHANGE FOR
DEVELOPMENT INCENTIVES, BY OBJECTIVE OF AMENITY

AMENITY SOUGHT BY MUNICIPALITY	MUNICIPALITY SEEKING THE AMENITY	SOURCE OF INFORMATION	PAGES	COMMENTS
Proximity of building to a rapid transit station	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Proximity of building to a rapid transit station	San Francisco	Rose, 1974	136	
Proximity of building to a rapid transit station	[No user named in source]	Alexander, 1982	41-42	According to source, the City of Pomona (Ca.) found this to be a frequently-sought amenity.
Transit station	San Diego	Alexander, 1982	45-6	A proposal, according to source. Present status unknown.
Walkways (above, at and below grade)	Calgary	City of Calgary, 1984	142-5	Land Use Bylaw, s. 42.3(1)(b).
Walkways (above, at and below grade)	Edmonton	City of Edmonton, 1986	Pers. comm.	Applies in the downtown business district only.
Walkways (above, at and below grade)	New York City	Patterson, 1979	67-8	
Walkways (above, at and below grade)	San Diego	Alexander, 1982	45-6	A proposal, according to the source. Present status unknown.
Walkways (above, at and below grade)	[No user named in source]	Alexander, 1982	41-2	According to the source, the City of Pomona (Ca.) found this to be a frequently-sought amenity.
Walkways within or outside buildings	San Francisco	Rose, 1974	137	

Appendix C

TRANSFERRED DENSITY BONUSES: OBJECTIVES

- Preservation of landmarks and historical buildings
(Babcock, 1979, 437; Branch, 1985, 127-8)
- Preservation and use of heritage buildings: Vancouver
(City of Vancouver, 1984)
- Preservation and/or renovation of historical buildings: Dallas
(Berridge, Lewinberg Associates, 1986, 18-9)
- Preservation of landmark buildings, especially theatres: New York
(Berridge, Lewinberg Associates, 1986, 6-12)
- Preservation of landmark buildings: San Francisco
(Berridge, Lewinberg Associates, 1986, 13-7)
- Facilitating the co-ordinated planning of large projects: New York
(Berridge, Lewinberg Associates, 1986, 6-12)
- Facilitating of development in mixed use zones: Vancouver
(City of Vancouver, 1984)
- Consolidation of lots and redistribution of density: New York
(Berridge, Lewinberg Associates, 1986, 6-12)
- Achievement of improved urban design: Vancouver
(City of Vancouver, 1984)
- Preservation of open spaces
(Branch, 1985, 127-8)
- Creation of public open spaces and parks: Vancouver
(City of Vancouver, 1984)
- Provision of public open spaces and plazas: San Francisco
(Berridge, Lewinberg Associates, 1986, 13-17)
- Preservation of open space in prime agricultural use
(Babcock, 1979, 437; Branch, 1985, 127-8)
- Protection of sunlight on public spaces: Calgary
(City of Calgary, 1984, 142.24)

Preservation of ecologically sensitive land

(Babcock, 1979, 437)

NOTE: Some of the above entries are direct quotes but most are paraphrases or elaborations of the original wording.

Appendix D

ON-SITE DENSITY BONUSES: STRENGTHS
IDENTIFIED BY PRACTITIONERS AND COMMENTATORS

Permit the implementation of special community objectives
(Meshenberg, 1976A, 1-2)

The community, rather than the developer, determines the type of amenities to be added to the area
(U.S. Dept. of Housing and Urban Development, 1977B, 14)

Community can establish specific items to be provided by the developer through the use of specific design standards
(U.S. Dept. of Housing and Urban Development, 1977B, 14)

Allow communities to receive benefits that they could not otherwise require
(Meshenberg, 1976A, 43)

Private developers provide public facilities or improvements desired by the community
(U.S. Dept. of Housing and Urban Development, 1977B, 14)

Can be changed easily if bonuses are not included in a zoning bylaw
(Nader, 1975, 276-7)

Are intended to provide a greater public benefit and greater economic return to a developer than would be achieved normally
(Alexander, 1982, 41)

Require no cash subsidies by government
(City of Ottawa, 1985, 2)

Local government expenditures are minimized since the developer provides facilities which would otherwise be the responsibility of the municipality
(U.S. Dept. of Housing and Urban Development, 1977B, 14)

Encourage rather than restrict private development
(City of Ottawa, 1985, 2)

Higher densities increase the financial attractiveness of development
(Urban Land Institute, 1985, 31)

Incentives [in general] contribute to variety and spontaneity in land use
(U.S. Dept. of Housing and Urban Development, 1977A, 21)

Traditional zoning can regulate uses and densities too tightly, leading to sterile, unimaginative and ugly buildings. Incentive zoning awards developers who provide positive elements (e.g. plazas, open space, landscaping, artwork)

(Goldberg and Chinloy, 1984, 309)

Bonus zoning for social housing can result in the provision of affordable housing for low income groups and the integration of high and low income groups (as when social housing units are included in private rental projects, with the intention of avoiding the stigma and neighbourhood resistance associated with some public housing projects)

(City of Ottawa, 1985, 3)

Bonus zoning for social housing involves minimal outlay of municipal funds and may receive support from the development industry because of the technique's development-encouraging (rather than regulating) approach

(City of Ottawa, 1985, 3)

No cash subsidies are required if bonuses are awarded for social housing

(City of Ottawa, 1985, 2)

Is designed to encourage, not restrict, private development

(City of Ottawa, 1985, 2)

Can make small sites advantageous for the development of high buildings

(City of Kitchener, 1986, pers. comm)

The award of a bonus should not necessitate a rezoning if the bonus policy is included in a planning document which has been adopted after public consultation and council deliberations

(Ontario Planning Act Review
Committee, 1977, 100-1)

Cluster (planned unit) developments

A greater range of housing types improves the marketability of a development

(Urban Land Institute, 1985, 31)

Flexible requirements for a building location and site allow the development of "difficult" sites

(Urban Land Institute, 1985, 31)

NOTE: Some of the above entries are direct quotations but most are paraphrases or elaborations of the original wording.

Appendix E

ON-SITE DENSITY BONUSES: WEAKNESSES
IDENTIFIED BY PRACTITIONERS AND COMMENTATORS

Only work if the "as of right" allowable density is reduced below the level which would pertain in the absence of bonuses

(Weaver and Babcock, 1979, 58-9)

Developers have provided public benefits listed in ordinances only if the incentives offered distinct advantages

(U.S. Dept. of Housing and Urban
Development, 1977B, 14)

De facto underzoning is necessary to make bonuses attractive to developers

(Nader, 1975, 277)

Basic zoning standards which are set artificially low can open an entire zoning scheme to court challenge

(Meshenberg, 1976A, 44)

"As of right" bonus provisions may ignore the capability of different sites to handle additional density, provide little opportunity for a community to contest a development and may be irrelevant due to the lack of demand for new density in a particular zone

(City of Ottawa, 1985, 8)

Bonus provisions for assisted housing may be ineffective if the "as of right" density for condominiums is too high, as in Toronto

(City of Vancouver, 1985, Appx. I,
p. 5)

The provision of rental housing is tied to the level of development of rental accommodation

(City of Vancouver, 1985, Appx. I,
p. 5)

The inclusion of assisted housing in semi-luxury buildings raises the question of how to justify subsidies to low income people housed in buildings with built-in saunas, jacuzzis, etc.

(City of Ottawa, 1985, 4)

Developers may oppose the subsidization of tenants in a building possessing luxury facilities and amenities, as in Vancouver

(City of Ottawa, 1985, 3-4)

The inclusion of assisted units in downtown luxury apartment blocks results in higher rents being paid by the government housing agency to the developer than would be the case in less expensive developments

(City of Ottawa, 1985, 7)

Bureaucratic problems may arise over the monitoring of assisted housing units, as in Vancouver

(City of Ottawa, 1985, 3-4)

The official statement of residential standards in terms of Floor-Area Ratio may encourage developers to produce small units with small numbers of bedrooms and minimal common space (a problem that might be rectified if standards were expressed in "number of units per acre")

(McKellar, 1979, 17)

A formula--as opposed to a negotiated--approach to bonuses may result in the characteristics of each site not being taken into account sufficiently

(City of Ottawa, 1985, 8)

Change in public values may not be reflected in the zoning ordinance's provisions for incentives and amenities

(U.S. Dept. of Housing and Urban Development, 1977B, 14)

Highly specific standards have had to be redesigned for each new site or new economic conditions

(U.S. Dept. of Housing and Urban Development, 1977B, 14)

Negotiated bonuses may be negotiated in secret

(Meshenberg, 1976A, 1-2)

Municipal demands may be excessive

(Meshenberg, 1976A, 1-2)

Excessive donation requirements may be struck down by the courts as exactions

(U.S. Dept. of Housing and Urban Development, 1977B, 14)

Developers may be able to outmanoeuvre municipalities

(Meshenberg, 1976A, 1-2)

The incorporation of old structures into new buildings in order to obtain density bonuses may result in the original building's "integrity" being compromised

(Freedman, 1986, 5)

Bonuses for the incorporation of theatres in new buildings in New York City has resulted in the establishment of theatres but has not preserved the ambience of the theatre district

(Weaver and Babcock, 1979, 126-7)

Excess density may be unsuited to the surrounding streetscape, as in Vancouver

(City of Ottawa, 1985, 3-4)

Developers and tenants may be leary of the prospect of children in the lobbies of office blocks containing day-care centres

(Steed, 1986, B1)

Plan approval is not guaranteed under a flexible zoning ordinance. Developers may prefer a conventional ordinance to a flexible ordinance because the rules are known and decision-making is not discretionary

(Urban Land Institute, 1985, 31)

Bonuses may not be usable because of contradictions between zoning regulations and the building code over building height, as in Vancouver

(City of Ottawa, 1985, 3-4)

In New York City, undesired consequences of bonuses include:

- "dead" plazas

- distortion of urban form (e.g. more intense growth at the periphery than at the core)

(U.S. Dept. of Housing and Urban Development, 1977A, 20)

- a glut of office space

- high vacancy rates

- declining rents in the 1960s and 1970s

- barren, uninviting plazas

- unappealing plazas in residential developments (e.g. decorated driveways or bleak open space)

(Weaver and Babcock, 1979, 59-60)

- useless public plazas, storefronts at street level and the retention of historical facades in exchange for grotesque perversions of planning ideals on a far larger scale

(Thorsell, 1987, 111)

- "uncalculated side effects (that) are a disaster in terms of bulk, density, light and air—the amenities the original law was supposed to protect"

- "gradual erosion of the city's real over-all amenity on a large scale, even as small amenities have been provided"

(Huxtable, quoted by Thorsell, 1987, 111)

The resulting high density can affect the transportation system by necessitating improvements

(Sewell, 1984, 5)

A municipality's exclusion of the floor area in a preserved structure or cultural facility incorporated within a new development, during the calculation of density, may be construed as the practice of deception

(Sewell, 1986, A8)

The open space provided by a developer in exchange for an incentive may prove to be unusable

(City of Kitchener, 1986, pers. comm.)

Are not very attractive to developers in fringe areas where land costs are lower than in city centres

(Alexander, 1982, 42)

Cluster (planned unit) developments

Without adequate care, a large percentage of the open space resulting from a cluster development may prove to be unusable and unbuildable "waste" land

(Schiffman, 1983, 26)

A cluster development may result in higher design and engineering costs than for a conventional development and require a longer processing time for a development application

(Schiffman, 1983, 26)

NOTE: Some of the above entries are direct quotations but most are paraphrases or elaborations of the original wording.

Appendix F

TRANSFERRED DENSITY BONUSES: STRENGTHS
IDENTIFIED BY PRACTITIONERS AND COMMENTATORS

Allow a property owner to sell the development rights for a parcel which he cannot or does not want to develop further

(Hodge, 1986, 244)

Allow addition of sufficient extra density to make a project economically viable

(Hodge, 1986, 244)

Provide community benefits by having development occur where it is desired and development limited where it is not desired

(Hodge, 1986, 244)

Allow the protection of unique resources and buildings in the absence of public funds for purchasing them

(Goldberg and Chinloy, 1984, 326)

Retain land in its present use

(Berridge, Lewinberg Associates,
1986, 22)

Allow the development potential of a site to be foregone for the public good

(Berridge, Lewinberg Associates,
1986, 22)

Result in a heritage site's assessment being decreased due to the lowering of the site's development potential. The increased assessment of the receiving site ensures that the municipality does not suffer a drop in property tax revenue.

(Huot, 1984, VIII-7)

NOTE: Some of the above entries are direct quotations but most are paraphrases or elaborations of the original wording.

Appendix G

TRANSFERRED DENSITY BONUSES: WEAKNESSES
IDENTIFIED BY PRACTITIONERS AND COMMENTATORS

The effectiveness of the transfer of development rights may be constrained--as in New York City-- if density bonuses are also available, allowing the height of buildings to be increased without development rights having to be transferred

(Berridge, Lewinberg Associates,
1986, 6-12)

"As of right" density may be so high that developers have little incentive to add on transferred development rights

(Berridge, Lewinberg Associates,
1986, 18-9)

Downzoning of land in the recipient area may be necessary to make the incentive attractive

(Babcock, 1979, 437)

The element of floating density reduces certainty

(Berridge, Lewinberg Associates,
1986, 6-12)

May undercut zoning control

(Shortell, 1980, 16)

Approval of density at receiving sites above the maximum stated in official plans and the zoning bylaw may be construed as the practice of deception

(Sewell, 1986, A8)

Control and monitoring problems

(Berridge, Lewinberg Associates,
1986, 20)

A municipality may have to become more involved in space management

(Weaver and Babcock, 1979, 236)

The technique is more complicated than the offering of density bonuses

(Shortell, 1980, 16)

The effects of transferred density on land prices are unclear

(Shortell, 1980, 16)

Uncertainty exists over the liability for damages resulting from municipal planning actions such as the transfer of development rights

(Ontario Ministry of Housing, 1979, 96)

The banking of density can lead to uncertainty and speculation in the land market

(Berridge, Lewinberg Associates, 1986,
26)

The transfer of development rights technique may be problematic [i.e. irrelevant] if there is no economic advantage associated with an increase in density at the recipient site. The alternative exists of banking development rights for sale when a market for extra density emerges but this option may prove politically embarrassing; the municipality would be trying to sell development potential while trying to create development potential through zoning regulations

(Huot, 1984, VIII-7)

Uncertainty exists whether the rights are sold "forever" even if the building or the donor site is destroyed or resold

(Shortell, 1980, 16)

If the site value of a preserved building increases over time, the owner may attempt to redevelop rather than maintain the property [thereby defeating the original objective of the transfer]

(Weaver and Babcock, 1979, 237-8)

The additional density on a receiving site in the downtown may affect micro-climate, transportation patterns and pedestrian movements

(Berridge, Lewinberg Associates,
1986, 25)

The additional density on the receiving site may create parking and traffic problems and generate demand for additional municipal services.

(Huot, 1984, VIII-8)

The resulting high density can affect the transportation system by necessitating improvements

(Sewell, 1986, A8)

When the recipient site is close to a heritage building, the new building may be out of scale with the preserved building, block sunlight and views and destroy part of the character of the area

(Huot, 1984, VIII-8)

The transfer of development rights technique could result in the character of a district being "overwhelmed"

(Weaver and Babcock, 1979, 288-92)

A high density building adjacent to a historic property whose development rights have been transferred may detract from the appearance and historical value of the donor site

(Land, 1982, 1)

Churches may not be promoting social justice—one of their prime concerns—by selling the development rights of preserved church buildings to developers of luxury residential buildings

(Oziewicz, 1984, 9)

There are few actual applications and the results have often been less than successful

(Ontario Ministry of Housing, 1979, 96)

Many unknown factors are associated with the transfer of development rights technique

(Ontario Ministry of Housing, 1979, 96)

NOTE: Some of the above entries are direct quotations but most are paraphrases or elaborations of the original wording.

Appendix H

RELAXATION OF LOT REGULATIONS IN ZONING BYLAWS: STRENGTHS

Approval of mixed use development and cost-saving designs is probably a more attractive incentive to developers in fringe areas than the awarding of higher density would be

(Schiffman, 1983, 32)

In fringe areas, where land is cheap and higher densities are not sought by developers or the public, approval of mixed use, reductions in required standards (allowing reductions in the developer's costs) and flexibility in design requirements are more appropriate bonuses

(Meshenberg, 1976A, 45)

Approval of a range of acceptable uses and the sanctioning of improvements to a building, even if the new use is non-conforming, would provide incentives to preservation of heritage properties

(Huot, 1984, VIII-9 - VIII-10)

NOTE: Some of the above entries are direct quotations but most are paraphrases or elaborations of the original wording.

Appendix I

DESIRABLE ELEMENTS OF AN ON-SITE DENSITY BONUS POLICY

Sanctioning of development at low intensity in the basic zoning so that the incentives are worth taking

(Alexander, 1982, 41)

The base floor area ratio must be low enough to make incentive provisions attractive, but not so low as to unduly restrict development

(U.S. Dept. of Housing and Urban
Development, 1977A, 20)

A statement of incentives in order to preclude arbitrary application

(Alexander, 1982, 42)

A clear connection between the bonuses and explicit planning policies in terms of objectives, criteria, densities allocated and locations

(Ontario Planning Act Review
Committee, 1977, 100)

Statements of the purpose of the bonuses, the amenities sought, the bonuses granted and the administration of the system (including identification of mandatory and elective amenities)

(Meshenberg, 1976A, 45)

A statement of guidelines, in order to reduce the potential for abuse of the technique and provide developers with certainty, equitability and consistency of treatment. (N.B. A counter-argument, that a formal schedule of bonuses removes flexibility by precluding the awarding of bonuses for special purposes, may also be presented. A schedule may also oblige a municipality to continue to offer bonuses on grounds of equity even though planning objectives have changed.)

(City of London, 1985, 4-5)

When the objective is to increase the supply of assisted housing units, bureaucratic delays encountered (in Toronto) in having the units accepted by assisted housing programmes may be avoided by requiring the donation of land, cash or housing units rather than the provision of "rent supplement" units within a new private development

(City of Ottawa, 1985, 6-7)

[If bonus provisions are absent from a zoning bylaw...]

Negotiation prior to rezoning and amendment of bylaws in order for the municipality to consider impacts and respond to market conditions better

(City of Ottawa, 1985, 2)

The offering of bonuses in areas where land costs are high

(Alexander, 1982, 42)

Use of bonus zoning is spatially restricted to areas where higher intensity development can be accommodated

(City of London, 1985, 4)

Approval of [cost-saving] design flexibility and mixed use in fringe areas, where density bonuses are probably less attractive to developers
(Schiffman, 1983, 32)

Density bonuses work best in central cities and growing suburbs where land costs are high. In fringe areas, measures which permit mixed use development, the reduction of costs (e.g., the clustering of buildings to reduce the costs of utility lines and streets) and better design are better stimuli.

(Meshenberg, 1976A, 45)

NOTE: Some of the above entries are direct quotations but most are paraphrases or elaborations of the original wording.

Appendix J

DESIRABLE ELEMENTS OF A TRANSFERRED DENSITY BONUS POLICY

Exchange of density rights between lots of ≤ 1 acre so long as the lots are within 500' of each other (the Toronto practice)
(Land, 1982,1)

A receiving site in the same zone or block as the donor site, to minimize the distortion of the land market and to facilitate administration by keeping the transfer within a single zone (the practice in Vancouver)
(Berridge, Lewinberg Associates, 1986, 2-5)

Recipient locations in the downtown, where the presence of public services and facilities allows the impact of the additional population to be absorbed more easily
(Weaver and Babcock, 1979, 237)

An evaluation procedure which considers the physical impacts (i.e., on micro-climate, transportation patterns and pedestrian movements) on the area adjacent to the receiving site
(Berridge, Lewinberg Associates, 1986,

The inclusion of the following in planning policy statements:

- a statement of the municipality's objectives
- the basis for transferring development rights
- the maximum amount of transferable rights
- the locations that can be involved in a transfer
- the criteria for approval

(Ontario Planning Act Review Committee, 1977, 100)

The identification of the goals which TDR will help achieve
(Weaver and Babcock, 1979, 236)
25)

A statement of the rules governing transfers
(Berridge, Lewinberg Associates, 1986, 23)

The inclusion in the zoning bylaw of the maximum density permitted at the donor and recipient sites
(Ontario Planning Act Review Committee, 1977, 100)

The approval of the transfer of development rights in municipal bylaws, eliminating the need for a rezoning every time a transfer is proposed
(Ontario Planning Act Review Committee, 1977, 100)

The registration of the notice of the transfer agreement against the title of the donor site

(Ontario Planning Act Review Committee,
1977, 100)

NOTE: Some of the above entries are direct quotations but most are paraphrases or elaborations of the original wording.

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